


MEMORANDUM

TO: Council, SSC and AP Members

FROM: Clarence G. Pautzke   
Executive Director

DATE: January 7, 1994

SUBJECT: Comprehensive Rationalization Program

ESTIMATED TIME

16 HOURS

**ACTION REQUIRED**

Review elements and options, refine alternatives, and review progress on analysis.

**BACKGROUND**

A Brief Review of CRP Activities 1992-1993

Now that we are into the new year, I think it is time to take stock of where we've been with comprehensive planning the past year or so, and pinpoint some of the key issues that have yet to be resolved before we put the analysis into high gear. CRP decisions for late 1992 and 1993 are summarized in item C-1(a). Briefly, the first substantive look at CRP occurred in November 1992 with presentations by Drs. Anderson and Huppert on the applicability of IFQs to North Pacific fisheries. Russell Harding presented a qualitative analysis of the alternatives identified in the inshore-offshore motion to potentially succeed inshore-offshore. A problem statement was developed. These were sent to public review.

In January 1993, we went through the exercise of matching solutions with identified problems, concluding that some form of transferable IFQ system addressed 13 of the 14 problems, while licenses would address only 5. The Council chose three major alternatives for further consideration: status quo (including use of traditional management tools), licenses, and IFQs. Additional qualitative analyses were considered in April 1993 and the Council decided to concentrate primarily on all-species IFQs. Other IFQ systems, e.g. for PSC or target species only, and license limitation would be treated qualitatively.

In June 1993 the Council further narrowed alternatives. After staff reports and more analyses, the Council identified an all-species IFQ system as the primary focus, while noting that licenses would be a fallback position available at a later date if necessary. It was also at the June meeting that the two-pie processor shares concept first was presented to the Council. The Council accepted it as an option, along with allocating some harvesting shares to processors.

In September 1993, the Council received discussion papers on these four main issues:

1. Skipper and crew considerations;
2. Pre-1984 catch histories for joint ventures;
3. Initial allocations to current or past vessel owners; and
4. Considerations of processors.

For skippers and crew, the Council included options for allocating 0-10% of QS to skippers, and a crew right-of-first-refusal on up to 15% of any QS/IFQ sale. For joint venture catch histories, the Council chose to use an average catch of JV vessels for pre-1984 years. Concerning #3 above, the Council identified (and defined) current owners as the initial recipients, while providing a suboption to allocate to past owners in the GOA longline rockfish fisheries. Processor treatment was the fourth major discussion item and is reviewed separately below.

Regarding major alternatives, the Council voted in September to reinstate license limitation as a major alternative for the groundfish fisheries, with options for licenses for certain species within the IFQ alternative. After detailed presentations by industry representatives, the Council also identified elements and options for each of the major alternatives.

In December 1993 the Council took considerable public testimony, including a proposal from the Alaska Marine Conservation Council to award fishing priorities to those that minimize bycatch, the "Harvest Priority Solution." The Council tabled action on CRP until January 1994, except for approving a contract for social impact analysis. On January 4, 1994 I mailed to you transcriptions of public comments and Council discussion on comprehensive planning in December, written comments contained in the notebooks, SSC and AP comments, and written materials received during and since the meeting.

#### Major Alternatives - January 1994

As of January 1, 1994, we have the following six major alternatives for quantitative analysis:

1. Status quo, with discussion of traditional management tools.
2. All-species IFQ system for groundfish, crab and PSC.
3. Pollock and cod IFQs (with PSC as needed); licenses for remaining groundfish and crab species.
4. Fixed gear license component for BSAI Pacific cod in conjunction with #1 or #2 above.
5. License system for groundfish.
6. License system for crab.

These systems are detailed in Item C-1(b). Progress on various analytical components, updated somewhat from December, is summarized in Item C-1(c). Each of the five major alternatives to status quo has myriad elements and options that will require time for extended analysis. Much of the quantitative analysis will be distributional in nature, with accompanying qualitative assessments of the pros and cons of various elements and options. ~~As discussed next, our ability to detect small changes in quantitative net benefits to the nation of any specific alternative is quite limited.~~

#### Limitations of Benefit-Cost Analysis

As we have informed you at past meetings, we are developing a linear programming/simulation model which will be used to produce estimates of the long-run net benefit (cost) of a given management regime. Similar approaches were used to assess net benefits for the sablefish/halibut IFQ program and

for inshore-offshore. These modeling approaches are very limited in their ability to discriminate quantitatively between specific elements and options within major alternatives. Model outputs should be viewed as broad directional indicators of potential benefits rather than exact predictions of the future of North Pacific Fisheries. Other results of the LP model include estimates of the long-run equilibrium value of quota shares for given species. Additionally, the LP model will show how effort may be redistributed over the course of the year, and the potential bycatch implications of the different regimes.

The estimates produced in the LP model will be consistent indicators of net benefits expected to occur under the broad policy options. This will be true to the extent that quotas are freely transferable in competitive markets, and there are no transaction costs or market failures, including failures in the capital market. This conclusion is based on fundamental tenants of conventional economic theory concerning tradeable quotas. This implies that the initial distribution of IFQs will not impact the net benefits in the long-run. The qualitative assessment will discuss whether or not the assumptions listed above are reasonably met under each of the alternative regimes. Conclusions drawn in the qualitative assessment may then be used to modify and qualify the results of the LP.

The LP model, which operates under the assumptions of competitive markets, will not predict differences in total benefits between initial allocations of quota shares within a given alternative management regime. Addressing these issues with the LP model would most likely lead to inappropriate and erroneous conclusions. Differences in initial allocations of rights within a given management regime are questions of distributional equity among recipients (and non-recipients). Tables reporting the distribution of initial allocations will be provided in the analysis, and may be used to aid the Council's decisions with regard to equity.

#### Decisions for January 1994

As noted earlier, the list of alternatives is under item C-1(b). Most of the decisions required for staff to move forward with formal analyses have been made by the Council. However, I think we still need to discuss the following items:

1. Using retained vs total catch in calculating initial allocations;
2. Processor considerations;
3. Breadth of alternatives and schedules for decisions; and
4. Post-1995 management.

Each of these items is discussed below.

#### Retained vs Total Catch

In December you received a discussion paper entitled "A Discussion of 1992 Weekly Processor Report Data in Terms of Retained Catch, Total Reported Catch, and Estimated Total Catch." The main topic of the paper centered around enabling individuals to estimate the amount of each species or species group that was needed to harvest the retained or reported catch of a target species. **Retained catch** refers only to the amount of catch listed in State and Federal data sources that were utilized. **Reported catch** is all the reported data including catch that was not utilized. The concept of "bundles" grants people credit for catch not listed in their catch history, either as retained or reported. The bundling concept is designed to allow fishers to be initially allocated a mix of species they can fish without being required to make excessive alterations to their portfolio of IFQs. Granting "bundles" to fishers basically gives credit for at least some of their past discards, and perhaps

credit for some they never caught. It assumes that if they need the bycatch now to harvest the target species reported in their catch history they must have also caught it initially and discarded the unmarketable portion of the catch.

Joint Venture. Joint venture data always reported total catch. If discards did occur they were not identified as such. JV catches were delivered in codends to the foreign processor, where any discards would have been made by the processor, not the catcher. To account for discards an assumption would need to be made regarding the percentage of the total catch that was discarded. In other words, there is no accurate way to determine retained catch.

Fish tickets. Data reported on fish tickets are landed weight. Any discards reported on fish tickets were discarded by the processor. At-sea discards by the catcher vessel are not reported in the data.

Weekly Processor Reports. Data from Weekly Processor Reports are available after 1986 and have always had a field to report discards. Prior to mid-year 1989 NMFS believed this data to be inaccurate and did not use the data in quota monitoring. Only after mid-year 1989 were discard data reports used in quota monitoring. Reliable discard reporting is assumed not to have occurred until the advent of the Domestic Observer program.

Domestic Mothership Deliveries. Deliveries by catcher vessels to domestic at-sea motherships are accounted for in the Domestic Observer program's data. Discard data by the mothership is available. However, crediting the discards to the appropriate catcher vessel are problematic because of the mixing of catch from various catcher vessels once on board the mothership. Prior to 1990, the best domestic mothership delivery data are fish tickets.

Because the quality and availability of discard data vary widely between data sources, one possible method to allocate bycatch bundles which may be equitable would be to tailor the bundles depending on data source. Since Joint Venture data are in fact total catch no additional bycatch quota needs to be added. For fish ticket data and catcher/processor data in weekly production reports, grant the appropriate bundle of bycatch needed to harvest all of the retained catch. The needed bycatch bundle for a specific target species could be estimated using observed catch rates.

#### Processor Considerations

Last September, as we worked our way through the elements and options of the IFQ alternatives, we were presented with an industry consensus proposal (see item C-1(d)) developed by nine representatives of the trawl and processor sectors. It has two provisions that relate directly to processor concerns under the IFQ alternative. Element I.E. identifies the 2-pie system for analysis. The Council clarified that staff should use the same system specifications for processors as already identified for the harvesting sector. The second processor provision is under element I.H. (Option d) which would require that a percentage of the harvester shares be delivered shoreside. The Council instructed the staff to use an average of the last two years for each species to determine the percentage. ~~The Council adopted the industry proposal with clarifications and those elements and options have been incorporated in the major alternatives detailed in C-1(b).~~

Also, at the September meeting, NOAA GC presented a written opinion that allocating processor shares to other than at-sea processors and motherships would be prohibited unless the Magnuson Act were modified, but that the Council could allocate fishing shares to processors if such an allocation could be justified sufficiently by the administrative record of the decision. Since the September Council meeting, I have had several inquiries from industry about whether the Council really meant

to delete the one-pie system (harvest shares to processors). Though I think the record of discussion in September is sufficiently clear on this issue, perhaps the Council should take a second look, especially considering the legal opinion and the controversy surrounding this whole issue. If no further action is taken, we will go ahead with just analyzing the two-pie and shoreside delivery requirement described above. The processor discussion paper from your September notebooks is available here as Item C-1(e).

#### Breadth of Alternatives - Schedule of Decisions

Some discussion was begun in September regarding the range of alternatives the Council wished to have analyzed and the ability of the staff to complete the analysis on the current CRP schedule (analysis in April 1994, final decision in June 1994). The original target date for an April analysis was based in large part on back-calculating from a desired implementation date of 1996 for the CRP program. Based on decisions from the January, April, and June 1993 meetings we felt this was an ambitious, yet achievable goal. At that time, the major alternatives to status quo were an all-species IFQ program for groundfish and crab, and a combination program of groundfish IFQs and crab license limitation. We now have five major alternatives on the plate, in addition to the status quo, to analyze based on decisions made in September. Additionally, the two-pie proposal adds a major dimension to the analysis. These alternatives are not merely subsets of one another, but are each very different management systems requiring independent analyses, and extended timelines.

The fewer the alternatives to analyze, the faster and more complete will be the analysis of each alternative. But in any case, we cannot complete an analysis before June of this year. It is very clear to me that given the time that elapsed from Council decisions on such controversial and complex issues as sablefish/halibut IFQs, North Pacific Fisheries Research Plan, moratorium, etc, to implementation, that even if the Council were to make a final decision on CRP by June or September 1994, I cannot see a way we could have the new system in place for 1996. Maybe it could be implemented by mid-1997, but 1998 may be more realistic. I think that NMFS is prepared to offer some insights on this.

Given that we have missed January 1, 1996, I suggest we slow down a bit, narrow the alternatives if possible, give you the best possible analysis we can by the June meeting in Anchorage, send it out for public review over the summer, and based on comments and further considerations, craft a preferred alternative in Seattle at the September Council meeting. Then send that alternative, with additional analytical refinements out for public review for late October-November, and schedule a final decision for either December 1994 or January 1995 (both meetings will be in Anchorage).

Between now and June, I intend to make available computer results showing the distributive effects of the various qualifying criteria. Distributions of QS or licenses by industry sectors and geographic regions seem to be of primary interest to the industry. We would look at the various allocation scenarios and make the necessary data runs to provide these distributions ahead of the more detailed cost/benefit analyses.

#### Post-1995 Management

Given the little likelihood of a new system (other than perhaps a simple license system for both groundfish and crab) being in place by January 1, 1996, the Council may want to consider what to do about inshore-offshore. This major policy direction taken in 1991 and 1992 to protect inshore

processors, including the CDQ program, will sunset at the end of 1995. The Council should discuss at this meeting or at least in the near future, how to handle interim management until a comprehensive plan is in place.

#### NOAA GC Opinion

In December the Council requested an opinion from NOAA GC which would clarify when Secretarial authority under the Magnuson Act is exceeded when changing Council recommendations. This request stemmed from changes made by the Secretary to the sablefish/halibut IFQ program which was recommended by the Council.

#### Supplemental Materials

Letters and comments received since the last Council meeting that have not been sent to you, particularly letters from the Washington Congressional delegation and the Pacific Northwest industry on lack of progress by the Council, are included as supplemental materials under this tab.

## SUMMARY OF 1992 AND 1993 CRP EVENTS

November 1992

The CRP initiative was kicked off at a November 12-13 meeting in Seattle. At that meeting the Council received initial oral and written testimony from industry which provided suggestions for the types of alternatives to be included in an analysis of CRP. Many of these initial recommendations are included in the Council's current suite of alternatives or subalternatives. A primary focus of much of the testimony was on the catch data base, particularly relevant to its use in initial allocations of QS. The industry and Council requested that an aggregated catch data base be provided to the industry which could be used to examine potential allocation scenarios. This was provided in February 1993 initially, with an updated version (QSAM) later in 1993. Other major events at this initial meeting included:

- \* A presentation on IFQs from Drs. Lee Anderson and Dan Huppert, with an emphasis on their applicability to North Pacific trawl fisheries.
- \* A review of a discussion paper titled "North Pacific Groundfish and Crab - A Review of Management Options for Rationalization". This qualitative analysis was developed by Council and NMFS staff and provided an initial examination of the alternatives (as contained in the inshore/offshore motion) for comprehensive rationalization. This paper looked at IFQs, License Limitation, and other traditional management tools with an assessment of how each addressed the comprehensive management and conservation goals of the Council.
- \* A Problem Statement for the CRP issue was developed which identified 14 specific problems which are symptomatic of the overcapitalized, olympic nature of the fisheries. This Problem Statement is attached.

The Committee (Council) decided to send the list of major alternatives out for further public review along with the Problem Statement, and scheduled the next major CRP meeting for January of 1993.

January 1993

At the January meeting, staff presented the Council with a CRP game plan that included two major steps: (1) identification of the major alternatives for detailed, quantitative analyses, and (2) once these were established, identifying the specific elements and options within each major alternative. To date, much of the industry testimony had been on the specific elements and options, particularly as they related to IFQ systems. Based on Council discussion, industry input, and the inshore/offshore motion itself, the staff identified 11 major alternatives for Council consideration: License Limitation, IFQs in various forms, Auctions, continued inshore/offshore, and traditional management tools such as trip limits, registration areas, and gear allocations. In order to facilitate Council consideration of the major alternatives, we made a comparison of each of these alternatives to the 14 problems identified in the Council's Problem Statement. We then had the Council, AP, and audience do likewise.

The results of the staff comparisons tracked very closely with the comparisons made by the industry and Council, with the indication that some form of IFQ system would be most likely to address the identified problems, with the summary results (by the industry and Council) being that some form of transferable IFQ system positively addressed 13 of the 14 stated problems. In comparison, the License Limitation alternative positively addressed only 5 of the 14 stated problems. Most of the other major alternatives fell somewhere in between.

Council action at this meeting was to identify three major alternatives for the CRP analysis:

(1) Status Quo - defined as the regulatory regime currently in place. Various traditional, management tools would not be analyzed extensively, with the acknowledgement that such measures could be developed and implemented in short order if an impasse is reached on limited entry alternatives.

(2) License Limitation for both groundfish and crab.

(3) IFQs - this would include subalternatives for the nature of IFQs, such as whether they would apply to target species only or target and PSC species, and would include options for transferability. Auctions were deleted from further consideration as an allocation alternative.

The Council noticed that the specific elements and options within these major alternatives would be developed over the next few meetings with input from the industry and public.

#### April 1993

A primary focus at the April meeting was for staff to lay out for the Council and industry some detail on the analytical approaches which would be used in the CRP assessment. Staff received some direction from the SSC and the Council regarding the scope and content of the analyses. The other primary focus at the April meeting was to begin looking at and evaluating the potential elements and options for the IFQ and License Limitation alternatives. It was acknowledged that some of these decisions would come further in the process, while there were others which needed to be decided 'up front' in order for the analyses to go forward. Staff presented an initial qualitative assessment of the following limited entry systems: general license limitation, IFQs for PSC species, IFQs for target groundfish species only, IFQs for all groundfish, and IFQs for crab fisheries.

The purpose of this exercise was to consider the 'nuts and bolts' workings of the alternative systems to help the Council decide which type of system was most likely to accomplish the goals of the CRP initiative. This first cut qualitative assessment included the potential advantages and disadvantages of each system, data and implementation implications of each system, and presented the questions which would have to be answered for each system to be viable. At this meeting the Council engaged in further discussions regarding the viability of the License Limitation alternative in the CRP process. The Council made the following primary decisions at the April meeting:

- \* The primary focus of the detailed analyses should be on a comprehensive (all species included) IFQ program.
- \* The License Limitation alternative and the other IFQ alternatives (for PSC or target species only) would be addressed in a more qualitative fashion.
- \* Under an IFQ system, species would be allocated in a package which includes target, bycatch, and PSC species.
- \* Staff would expand the qualitative analysis for the June meeting where the Council would again address the specific elements and options within the major alternatives.

#### June 1993

An expanded qualitative analysis was presented in June with the primary intent of providing the Council with input on structuring the specific elements and options for the CRP alternatives. Examples of issues to be resolved included:

- \* Who will be the initial recipients of QS (or licenses)? Options included current vessel owners, past vessel owners, skippers/crewmembers, processors, and coastal communities.



- \* On what basis would allocations be made? Vessel size, investment, catch history?
- \* In terms of catch history, what years would be included and what if any, weighting factors would be evaluated?
- \* What types of transferability restrictions should be evaluated?
- \* Ownership caps and other use provisions?

A spreadsheet listing these and other potential options was provided to the Council to work from. Based on staff reports, initial analyses, and previous Council discussion, the Council voted to proceed with the analysis of a comprehensive (all species) IFQ alternative, and dropped from further, formal analysis the alternatives of License Limitation and species limited IFQ systems. These alternatives would be discussed qualitatively in the final analysis, noting that a License Limitation alternative, for example, would be a 'fallback' position available to the Council at a later date if necessary.

The Council was presented with the 'two-pie' QS concept which would allocate matching processor shares to processing interests. The Council voted to include this option for further analysis, in addition to the option for allocating some percentage of harvest shares to processor interests.

#### September 1993

In September staff provided the Council with discussion papers to help provide clarification on certain issues. The first dealt with consideration of skipper and crew members in an IFQ or License program. The Council elected to include an option for setting aside a specific percentage of IFQs for allocation to 'bona fide' skippers, with the request that the representatives of this group come back to the Council with suggestions for specific allocations within that group. A letter from Skippers for Equitable Access (S.E.A.) was submitted, along with other comments, which outlines their proposed alternatives for making such allocations, along with their suggestions for how a skipper licensing program should work, in the absence of IFQs.

Another discussion paper from September addressed the issue of data availability in the absence of official agency records on landings histories. Pre-1984 JV catch histories were a specific concern of industry and the Council. Lacking individual catch history information for these years, we outlined some possible alternatives for assigning catch histories. The Council decided to divide each year's catch history (by species) among the vessels participating in those fisheries in each year (prior to 1984). This will be used as a proxy for the catch history for each eligible QS recipient for those years.

A paper on processor considerations was also reviewed, which offered some options for including processors in the IFQ program. The Council elected to include consideration of the 'two-pie' system whereby matching processor shares would be developed and allocated in conjunction with the harvesting QS. The same sub-alternatives (for eligibility, allocation criteria, ownership, etc.) will be used as are laid out for the harvest QS system.

Finally, the Council reviewed a discussion paper dealing with the question of QS allocation to either (1) vessel owners at time of landings, or, (2) current vessel owners. The Council decided to consider only allocations to current vessel owners, with two options for defining current ownership. Option A would be vessel owner as of June 24, 1992 while Option B is vessel owner at date of final Council action. A letter was submitted, from the Coalition for Stability in Marine Financing, which expresses concern over Option A, and suggests that this Option will cause uncertainty and disruption in the marine finance community. They suggest elimination of Option A.

The Council took public testimony, including specific proposals from a trawl group coalition and a fixed gear coalition, and then addressed the specific elements and options for the overall IFQ alternative. The Council also

went through a similar exercise for the proposed crab License Limitation program, fashioning options for each of the major provisions of the program. The Council also voted to reinstate License Limitation as a major alternative for the groundfish fisheries, with options for licenses for certain species within the IFQ alternative. These alternative programs were summarized and distributed in October in a special Council newsletter to the industry.

Several significant decisions were made regarding the specific elements and options for the IFQ and License Limitation alternatives. These were based largely on consensus proposals submitted by industry on the last day of this meeting. For example, a consensus trawl group proposal, which included representatives of onshore processing interests, was submitted and adopted by the Council as a starting point for defining specific elements and options. Elements of this proposal which were approved by the Council included: allocation of harvest QS only to current vessel owners; specific percentages to be considered for CDQ and skipper allocations; specific options for years of catch history to be considered, and definition of specific elements of the 'two-pie' processor share program (the option of allocating harvest shares to processors was not included in the consensus proposal, though there was an option that some percentage harvest shares be delivered onshore).

#### December 1993

At the December meeting, the Council was presented with some informational requests from the September meeting. This included a discussion paper regarding the issue of awarding QS based on retained as opposed to total catch. Staff also presented the Council with a re-assessment of the timelines necessary to complete the analyses, given the expansion of alternatives which occurred at the September meeting.

The Council received public testimony on this issue, including a proposal from the Alaska Marine Conservation Council recommending a "Harvest Priority Solution" as an alternative, or predecessor, to IFQs. This program would reward fishing priority to those who minimize bycatch. The Council tabled action on CRP until the January 1994 meeting, with the exception that a contract was approved for outside social impact analyses relative to the CRP initiative.

**Draft Problem Statement**

Expansion of the domestic fleet harvesting fish within the EEZ off Alaska, in excess of that needed to harvest the optimum yield efficiently, has made compliance with the Magnuson Act's National Standards and achievement of the Council's comprehensive goals, adopted December 7, 1984, more difficult under current management regimes. In striving to achieve its comprehensive goals, the Council is committed to: (1) assure the long-term health and productivity of fish stocks and other living marine resources of the North Pacific and Bering Sea ecosystem, (2) support the stability, economic well-being, and diversity of the seafood industry, and provide for the economic and social needs of the communities dependent upon that industry, (3) efficiently manage the resources within its jurisdiction to reduce bycatch, minimize waste, and improve utilization of fish resources in order to provide the maximum benefit to present and future generations of fishermen, associated fishing industry sectors, communities, consumers, and the nation as a whole.

The Council's overriding concern is to maintain the health of the marine ecosystem to ensure the long-term conservation and abundance of the groundfish and crab resources. In addition, the Council must address the competing and oftentimes conflicting needs of the domestic fisheries that have developed rapidly under open access, fisheries which have become overcapitalized and mismatched to the finite fisheries resources available. Symptomatic of the intense pressures within the overcapitalized groundfish and crab fisheries under Council jurisdiction off Alaska are the following problems:

- Harvesting capacity in excess of that required to harvest the available resource;
- Allocation and preemption conflicts between and within industry sectors, such as with inshore and offshore components;
- Preemption conflicts between gear types;
- Gear conflicts within fisheries where there is overcrowding of fishing gear due to excessive participation and surplus fishing effort on limited grounds;
- Dead-loss such as with ghost fishing by lost or discarded gear;
- Bycatch loss of groundfish, crab, herring, salmon, and other non-target species, including bycatch which is not landed for regulatory reasons;
- Economic loss and waste associated with discard mortality of target species harvested but not retained for economic reasons;
- Concerns regarding vessel and crew safety which are often compromised in the race for fish;
- Economic instability within various sectors of the fishing industry, and in fishing communities caused by short and unpredictable fishing seasons, or preemption which denies access to fisheries resources;
- Inability to provide for a long-term, stable fisheries-based economy in small economically disadvantaged adjacent coastal communities;
- Reduction in ability to provide a quality product to consumers at a competitive price, and thus maintain the competitiveness of seafood products from the EEZ off Alaska on the world market.
- Possible impacts on marine mammals and seabirds, and marine habitat.
- Inability to achieve long-term sustainable economic benefits to the nation.
- A complex enforcement regimen for fishermen and management alike which inhibits the achievement of the Council's comprehensive goals.

Recommendations for Comprehensive Planning  
September 25, 1993

I. Elements of the Groundfish/Crab ITQ Program

- A. Allocate to current vessel owners
  - Option a. "current" on June 24, 1992
  - Option b. "current" on date of final Council action
- B. For pre-1984 data use annual average by target species
- C. Option a. No initial allocation to skippers or crews  
Option b. Initially allocate 3% of the total ITQs to bona fide skippers
- E. 2-pie system: PSPA will provide staff with details
- F. 1. Option a. Vessel must have participated sometime during the 3 years prior to [June 24, 1992 or date of final Council action] (if vessel is lost during this 3-year period, owner at time of loss is still eligible for ITQs)  
Option b. No recent participation requirement
- 2. For harvesting and/or processing ITQs (may be treated differently)
  - Option a. 1976 to [June 24, 1992 or date of final Council action]
  - Option b. date of full DAP (by fishery) to [June 24, 1992 or date of final Council action]
  - Option c. 1993 only
- 3. For harvesting and/or processing ITQs (may be treated differently)
  - Option a. no weighting
  - Option b. DAP 3.5:1 JV
  - Option c. DAP 2:1 JV
  - Option d. extra weighting for JV prior to 1986, and for DAP prior to 1989
- 4. (accounted for in F.2. above)
- 5. Define "relative dependence" as a percentage of total annual revenues - by species and area
- 6. Credit reported catch and, in the initial allocation, issue adequate bycatch quota shares
- G. Option a. no restrictions  
Option b. 2-year moratorium on sales only  
(do not include preferential sales to skippers)

- H. Option a. Must control ITQs to cover expected catch before fishing
- Option b. Overage/underage program
- Option c. Must possess ITQs to cover catch within 1 month of harvest
- Option d. Require ?% of harvester shares to be delivered shoreside

## II. Crab License Limitation Program

If the Council follows a separate course for crab, we ask that crossover rights be preserved, so that a boat with history in both crab and groundfish has access to both if it meets the allocation criteria established.

### General Recommendations:

The ITQ program should be consistent in design between the GOA and the BSAI, recognizing that each fishery has a different history and may therefore have varying requirements.

Initial allocations of target ITQs should not be made by gear type, to allow a fisherman to use the gear he prefers.

Vessels should be eligible for catch histories for whatever areas and species they are accrued.

Greg Baker  
Chris Blackburn  
Joe Blum  
Vince Curry  
Dave Fraser  
Kate Graham  
Steve Hughes  
Paul MacGregor  
Ed Wolfe

**Discussion Paper: Processor Considerations**

September 17, 1993

At its June meeting the Council was presented a paper by Dr. Scott Matulich on the issue of allocations to processors. That paper has stirred debate both in the industry and in circles of professional economists. After the June meeting Council staff requested several respected fisheries economists to review the Matulich paper and to forward their comments to the Council. The SSC economics subcommittee was enlisted to review these comments and to elicit responses to these comments from Dr. Matulich. Dr. Rich Marasco is overseeing that review, which will not be completed by this meeting.

The Matulich paper, whether one accepts its premises or not, has shed some light on the issue of the treatment of processors under what has been envisioned as a program allocating harvest rights. Such issues as equity for non-harvesting processors (shore-based and motherships), vertically integrated firms, malleable v. non-malleable assets, and the rights of prior use have gained in prominence. The Council is faced with the difficult decision of how to deal with this wide ranging debate. Without getting into the debate, this paper tries to focus on the alternative solutions which could provide stability for the processing sector under an individual quota system. Three alternatives have surfaced.

1) Allocate a portion of the harvesting rights to processors. This alternative has been proposed by processors, and from the perspective of economic theory does not appear to affect the efficiency outcome of going to an IFQ system. In terms of equity, an allocation to processors recognizes the prior use or dependency of the processors on the resource. In terms of administration, an allocation to processors means additional participants to track; the 1992 NMFS Weekly Processor report listed 96 non-harvesting processors. Harvesting groups have voiced strong opposition to this proposal.

2) Develop two allocation pies, one allocating harvesting rights; the second allocating processing rights. This is the two-pie system discussed in the Matulich paper. This alternative appears to have merits in terms of equity between harvesters and processors. There is however, much debate among economists whether a two-pie system will lead to an "optimally efficient" solution. Additionally, there may be some legal issues; Does the Secretary of Commerce have the authority to regulate processing under the MFCMA?

3) Allocate all harvesting right to harvesters but guarantee shore-based and mothership processors access to raw product by limiting transferability of shares between harvesters and catcher/processors, and possibly by continuing inshore/offshore landings requirements. This alternative is less efficient from an economist's perspective than a harvesting allocation without restrictions. The inefficiency comes about because the "market" for shares has been split. Within the harvesting sector, shares may trade and in time the market will efficiently allocate harvests. Similarly, within the catcher/processor sector the shares will find their way to the most efficient users. But because there are no transfers between markets, overall efficiency will not come about. Even if the initial split between harvesters and catcher/processors appears efficient at the time, any changes in technology will render to inefficiency what was an efficient solution. Further restrictions on landing such as occurs under inshore/offshore will also reduce efficiency. This is not because one sector is more efficient than the other but because government rather than the market determines the outcome. Since government can never be as all-knowing as the market the solution will inevitably be less than perfect. The economist's concerns notwithstanding, this alternative may have merit for further study, if for some reason two alternatives appear infeasible.

December 22, 1993

Rick Lauber, Chairman  
North Pacific Fishery Management Council  
Post Office Box 103136  
Anchorage, Alaska

Re: Council Delay of Comprehensive Rationalization  
Plan

Dear Mr. Lauber:

The undersigned associations represent virtually every element of the Pacific Northwest-based fleet that harvests fish and shellfish in the fisheries off Alaska. Collectively, the members of our respective organizations account for more than 80% of the seafood harvested in the fisheries managed by the North Pacific Fishery Management Council.

We are writing to express our extreme disappointment and frustration over the Council's abrupt vote to table any discussion of the long-awaited Comprehensive Rationalization Plan (CRP) at its recent meeting in Seattle. As you are well aware, that meeting was the first one ever held in Seattle. Members of our various groups finally had an opportunity to attend a Council meeting and to observe the Council's deliberations on this, the most important fishery management issue the Council has ever faced. Many of those at the meeting had waited through an entire week of testimony and debate on other subjects in order to testify on CRP and hear the Council discuss the issue. The motion to table the subject immediately following public testimony deprived them of the opportunity to hear the Council deal with this critical topic. The motion was passed despite the strenuous objection of the Washington State Council members.

The vote to table the CRP discussion was, in our view, a transparent political maneuver to once again delay Council consideration of this crucial subject. It deprived many of our members of the only chance they will ever have to observe Council deliberations on the CRP issue. More importantly, since the analysis of options is now on hold, the vote delayed even further the day when we can see an end to the dangerous, inefficient and embarrassingly wasteful "open access" system under which our respective fisheries currently operate.

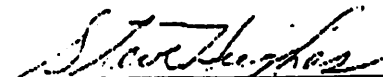
Rick Lauber, Chairman  
 December 22, 1993  
 Page 2

While the Council plays political games, men and women continue to struggle and too often die in the race for fish that characterizes the derby-style fisheries managed by the Council. The fishermen and women of the North Pacific deserve better; the resources of the North Pacific deserve better; and the people of the United States who expect responsible management of our nation's resources deserve better.

The time has come to insist that the Council get serious about the task before it. We will not condone further delay and foot dragging. December 1995 is rapidly approaching and we fully expect the Council to have a CRP in place in time for the 1996 fishery. We pledge our efforts to facilitate that goal. We expect the Council to diligently pursue it as well.



American High Seas Fisheries  
 Association



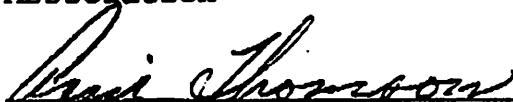
United Catcher Boats



Fishing Vessel Owners'  
 Association



Independent Fishermen For  
 Fair Quotas



Alaska Crab Coalition



American Factory Trawlers'  
 Association



Deep Sea Fishermen's Union

cc: Rollie Schmitten  
 Steve Pennoyer  
 Washington Congressional Delegation  
 Alaska Congressional Delegation  
 Oregon Congressional Delegation



**Congress of the United States**  
Washington, DC 20515

January 6, 1994

The Honorable Ronald H. Brown  
Secretary of Commerce  
Office of the Secretary  
14th and Constitution Ave, NW  
Washington, D.C. 20230

Dear Mr. Secretary:

We are writing to express our concern that grave problems affecting federal fisheries in the North Pacific are not being effectively addressed. We are concerned that without prompt, decisive action on your part, the environmental and economic consequences of this management failure will reach severe proportions.

The North Pacific Fishery Management Council is responsible for initiating management actions for the federal fisheries of the North Pacific. In 1992, the Secretary approved a 5-year interim allocation regime drafted by the Council. This interim allocation regime was highly controversial because it redirected tons of fish and millions of dollars from the Seattle-based fleet to Alaskan-based operators. The Administrator of NOAA recognized this when he stated the following in a memo to the Council:

"In my review of these very contentious issues, a central point made by both ... sectors was the need to achieve stability in this fishery so that long-term planning could take place. I strongly urge the Council not to resubmit Amendment 18 again, because, in my judgment, it will distract the Council from its major responsibility to develop a market-based allocation system for the long term. ... I hope the Council will avoid any further efforts to select winners and losers in the pollock fishery when there appears to be no economic gain to the nation from such efforts."  
(emphasis added)

Mr. Secretary, to date the Council has made little progress in carrying out the directive of developing a market-based allocation system for the long term. Of immediate concern is a decision by the Council at its December meeting to defer action on a comprehensive allocation program that is widely viewed as the only effective means of rationalizing the fisheries. The decision to defer action, which followed a similar course at the September meeting of the Council, was made on a motion by the state of Alaska's representative and supported by every member of the Council's Alaska majority. With the Washington members of the Council all voting against the motion, it is again apparent that the Council will initiate a comprehensive management program when and how the Council's Alaska majority decides.

While we have come to expect this kind of action on the North Pacific Council, we are particularly disappointed that your voting representative on the Council, the Regional Director of the National Marine Fisheries Service (NMFS), also voted to defer action. We see no reasonable explanation for the continued delays and are astounded that they continue with your apparent support. Comprehensive rationalization of the groundfish and crab fisheries is indispensable to the achievement of federal conservation and management goals, as provided by the Magnuson Fishery Conservation and Management Act.

Mr. Secretary, we urge you to instruct NMFS to pursue a comprehensive rationalization program as a matter of the highest priority. If the Alaska majority on the Council continues to block the process, we will expect you to take administrative measures or, if necessary, to propose legislative action, not only to resolve this particular problem, but also to restore the effectiveness of the process for conserving and managing all federal fisheries in the North Pacific.

Sincerely,

*Patty Murray*  
Patty Murray U.S.S.

*Jolene Unoold*  
Jolene Unoold, M.C.

*Jim McDermott*  
Jim McDermott, M.C.

*Marie Curwell*  
Marie Curwell, M.C.

cc: The Honorable Doug Hall, Undersecretary for Oceans and Atmosphere  
Mr. Rollie Schmittman, Director, National Marine Fisheries Service

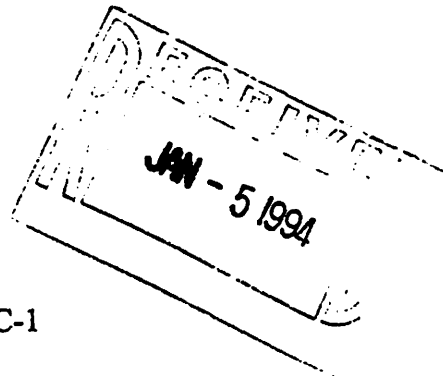
# North Pacific Fishing, Inc.

4039 21st Ave. W. #201 ■ Seattle, WA 98199  
(206) 283-1137 ■ TWX 5101004709 N PAC FI ■ FAX 2062818681

  
Fishermen's  
Finest

January 5, 1994

Richard B. Lauber, Chairman  
North Pacific Fisheries Management Council  
605 West 4th Avenue  
Anchorage, AK 99501



RE: Comprehensive Rationalization Plan GOA & BSAI, Agenda Item C-1

Dear Chairman Lauber:

North Pacific Fishing, Inc. operates a trawl vessel in the Bering Sea and Gulf of Alaska and will be affected by the proposed plans to modify the current fisheries management program. At this time myself and other industry members are very concerned about the efficacy of implementing an individual quota program. In your deliberations at this meeting you are considering refining the alternatives for a comprehensive rationalization plan. It is imperative to the health of the industry that you do not remove options to individual quotas from the analysis.

By trimming the alternatives for analysis to just comprehensive rationalization and status quo, you will void the value of any analysis by giving the council no opportunity to weigh the new management system against another system on the basis of scientific analysis. The council would be in effect choosing the preferred alternative prior to the analysis and deliberation. This would deny interested members of the public an opportunity to comment on the proposed system. It also could well nullify any action the council chose to take.

The council staff has made it clear that the economic analysis of an individual quota system will only predict the outcome of such a system 20 years after implementing it. It will not give the public or the council an opportunity to evaluate the effect of the new system on individual fishermen, vessels, or shoreside organizations in the short term. This makes the maintenance of such traditional management measures as license limitation and individual accountability for bycatch even more important.

The council is looking to comprehensive rationalization to solve immediate economic issues such as the high debt structure of many members of the industry and economic preemption of one sector by another. The council is also concerned with increasing optimum yield by limiting waste. The stocks of the North Pacific US EEZ are however healthy and provide a strong economic benefit to the nation. Do not jeopardize the health of these stocks and the dynamism of this industry by imposing a drastically changed management structure on the basis of an incomplete regulatory analysis.

Sincerely,



Rudy A. Petersen  
President

JAN - 6 1994

Mark S. Edminster  
PO Box 3295  
Homer, Ak. 99603

1/6/94

Mr. Rick Lauber, Chairman  
North Pacific Fishery Management Council  
PO Box 103136  
Anchorage, Ak. 99510

Mr. Lauber:

Having kept a close eye on the expansion and development of various fisheries of the North Pacific, I feel compelled to express my concerns pertaining to the conservation of these resources and, if need be, as determined by the NPFMC, upon license limitation and/or an allocation of resource harvest rights (IFQ's) to those who have earned these quota shares. As a long time Alaska resident and family man, who derives income primarily from crab fishing in the Bering Sea, I will direct my missive towards this end.

Assuming that the number of vessels harvesting crab in the Bering Sea remains relatively constant with the 92/93 record levels (a moratorium guarantee), allowing a +/- 5% fluctuation fudge factor, I believe that the pot limits now in effect will sufficiently protect the individual species from over-harvest and indiscriminate mortality. Having always tried to be a conservation and "if ever in doubt, give the specie the benefit" advocate, I feel that this should be the doctrine of the boards that control harvest guidelines and set by-catch caps for competing fisheries and to this end, regard the pot limits as an affirmative step forward.

If, however, industry determines that an individual quota system or license limitation is necessary to preserve the quantity, quality, and integrity of the crab fisheries off the coasts of Alaska, then as a non boat owner and skipper, I feel it will be imperative to include the qualified boat operators in any licensing or divisions of allocatable resources in order to preserve our "right to earn a living". I foresee a time when non-owning captains are regarded as "expendable operators", as we will bring no proof of our abilities to harvest a particular specie nor create any possible financial leverage by contributing our share of the division of harvestable resources. I realize that the owners have borne considerable amounts of financial risk but there are many colours of risk and without the captains expertise, sense of responsibility, and managerial contributions, the bottom line risk would be to unsecure the lines and have the vessel leave port!

I believe as a qualified "crab vessel" captain, having earned my right to harvest the Bering Sea and create an income for my family, that anything less than an equitable division of harvestable resources between vessel owners and qualified captains would be a travesty of our judicial mediary process!

Sincerely,



Mark S. Edminster

cc S.E.A.

RECEIVED  
JAN - 7 1994

JAN 2, 1994

Dear Mr. Lauber and council members:

I am writing in support of Shippers for Equitable Access (SEA) As group whose proposals and concerns should be carefully considered and fairly judged.

My husband has operated a fishing vessel in the Bering Sea fishery for more than 12 years. Has risked his life many times, has endured weather no man should have to fish in and has lost many friends at sea.

The times he has missed births, deaths, holidays and anniversary occasions are too numerous to mention. He doesn't complain about the hardships, the part of the job, and doesn't complain to his wife. As a wife, I try to support him but when he doesn't have to be gone so long.

He has always paid for his debts as well as expenses of the boat. In the last few years some have taken cuts in their share of the profits but never has the responsibility for bringing in a good catch, nor the safety of the boat and crew lessened. Its more important today than ever to be the best as the price continues to drop, men can lose their lives trying to provide for their families.

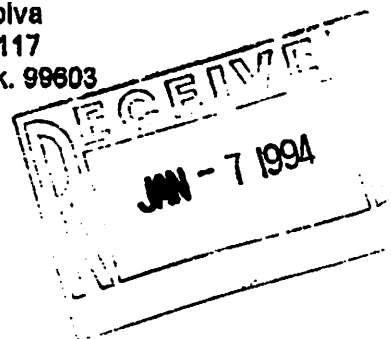
Please send a message to these deserving men by giving them their fare share.

Sincerely:  
Barbara Crane

*Barbara Crane*

Mike L. Tolva  
PO Box 2117  
Homer, Ak. 99603

1/7/94



Mr. Rick Lauber, Chairman  
North Pacific Fishery Management Council  
PO Box 103138  
Anchorage, Ak. 99510

Mr. Lauber:

Having kept a close eye on the expansion and development of various fisheries of the North Pacific, I feel compelled to express my concerns pertaining to the conservation of these resources and, if need be, as determined by the NPFMC, upon license limitation and/or an allocation of resource harvest rights (IFQ's) to those who have earned these quota shares. As a long time Alaska resident and family man, who derives income primarily from crab fishing in the Bering Sea, I will direct my missive towards this end.

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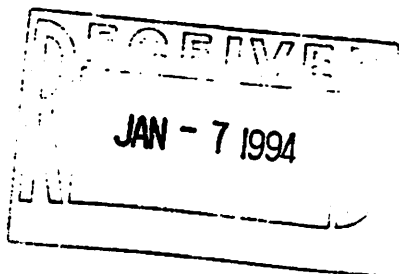
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I believe as a qualified "crab vessel" captain, having earned my right to harvest the Bering Sea and create an income for my family, that anything less than an equitable division of harvestable resources between vessel owners and qualified captains would be a travesty of our judicial mediary process!

Sincerely,

Mike L. Tolva

cc S.E.A.



Charles Rehder  
 Box 2065  
 Homer, Ak. 99603

January 5, 1994

Mr. Rick Lauber, Chairman  
 North Pacific Fishery Management Council  
 Box 103136  
 Anchorage, Alaska 99510

Mr. Lauber:

I am writing this letter in regards to the issue of IFQ's for Ground fish and Crab in the Bering Sea. As a life long resident of Alaska and a person who has invested many years and dollars into the Bering Sea crab fishery, I feel we should take a long hard look at whether the IFQ program is necessary. In my opinion, with the current moratorium, pot limits, and fluctuation of quotas, the highly regulated crab fisheries are in no immediate danger.

If at some future date it becomes necessary to implement IFQ's, I would like to see the following items addressed.

- Some type of qualified skipper consideration.
- Present participation in the fishery and the qualifying years should include the years leading up to the implementation of IFQ's.

- There should be a cap on the percentage of IFQ's an individual or company can control.

- There should be no Community Development Quotas being that they are now already fully exploited by the industry.

As a member of the North Pacific Fisheries Assoc. (NPF), we are currently working with other members on more in depth proposals. The NPF board will be considering these proposals in drafting a position paper on IFQ's for the Bering Sea and it should be completed by April of 1994.

Regardless of which direction is finally taken, my main concern is for the conservation of the fishery.

Sincerely,

Charles Rehder  
 Skipper F/V Kustatan

cc. SEA

## **Progress Report on CRP Analysis**

### **Overview of Data Base Development**

Development of the analysis database (ADB) is continuing, albeit slowly. Overall, this is proving to be a more formidable task than we originally thought. Darrell Brannan has completed the basic programming needed to put the datasets together. However, three major problems are apparent and are described below. These problems notwithstanding, we anticipate completion of the ADB by mid-February, 1994.

(1) Inconsistencies in the ADFG Crab data have not yet been resolved: Western Region Shellfish reports and ADFG fish-tickets differ by nearly 30 million pounds over all years for all species. It appears we will be forced to use existing data sets rather than wait longer for any possible corrections. This may result in some misleading findings but it is assumed that the data problems could be resolved before actual allocations would occur.

(2) As expected, we are encountering difficulties linking the sets of information from different sources. Vessel and processor identifiers used by one agency are not the same as those used by others. Species codes and area codes are also different from each agencies. Without a consistent set of identifiers linking data from different agencies, the potential for double counting and misleading information is increased. LGL-Alaska, a private consulting firm, was recently awarded an S-K grant to develop a prototype Comprehensive Data Base in which many of these problems could be worked out. LGL's contract is with NMFS however and the Council has little control over the project's timing or outputs.

(3) Fish-ticket data for groundfish and halibut data for 1992 are not up to CFEC standards. These data will likely not be available until after the January Council meeting. Halibut data are an important factor in constructing the vessel and processor profiles because they allow us to track all revenues and costs of participants. Without the 1992 data we would assume 1992 halibut landings by participants in the groundfish and crab fisheries were the same as their 1991 halibut landings. The groundfish data problems appear mainly in the at-sea sector. For at-sea landings we intend to use other sources of data, specifically weekly processor reports and domestic observer reports.

### **QSAM**

A correction notice was sent to all QSAM recipients last month which identified a couple of errors and quirks in the program. We are contemplating the idea of compiling and distributing an updated version, which might also include a database aggregated for an exclusive allocation scenario identified by the Council in September (must have fished in one of last three years); however, we are going to hold off doing that until after the January 1994 meeting, so that we have the final list of alternatives to be considered.

### **Confidentiality Concerns**

These concerns fall generally into two categories: (1) those which may affect the allocation of QS, and (2) those which have to do with the various data bases held by different agencies which we or other users need for analyses of CRP and other projects.



Regarding the first category, we have explained to the Council the confidentiality problems associated with releasing catch information (i.e., QS amounts) to vessel owners who are not the permit holders. This promises to be even more of a problem if allocating QS only to current vessel owners, as the Council has recommended, who may not even have owned the vessels, much less held the permit, at the time of landings. The problem could arise in the allocation of sablefish/halibut QS in the immediate future and will likely arise later in the CRP program. This will not inhibit our analyses of CRP, however any impacts predicted by the analysis may be misleading if NMFS is unable to implement the program as analyzed. The problem could be alleviated if the State's and NOAA's confidentiality requirements were altered, and the State of Alaska Attorney General's interpretation of the confidentiality regulations changed.

The second area of concern may affect our ability to complete the SIA in a timely and satisfactory manner. It appears that secondary data sources listed in our SIA solicitation may not be made available to the contractor after all. A new law recently passed by the State of Alaska Legislature appears to prohibit the release by the State to Federal agencies (including the Council) information such as telephone numbers of permit holders, processors, and vessel owners. If the SIA contractor needs to contact these individuals they will have to search for phone numbers, greatly increasing the time involved in their surveys.

#### Representative Vessel and Processor Profiles

Development of vessel and processor profiles are behind schedule. Interagency data inconsistencies, mentioned above, have made it very difficult to develop a concise placement of the vessels and processors into appropriate categories. A first cut at this process has been completed for 1992 and work is continuing on earlier years. This component of the analysis represents one of our greatest areas of concern currently. This information is fundamental to our economic analyses and must be completed by the end of February if we are to have a chance of completing the package on schedule.

#### LP Model Development

Development of the prototype and expanded version of the LP model is ongoing. Dr. Matt Berman is working closely with the Council staff to document the model to meet the SSC's requirements. A fully documented working version of the prototype model is expected by the January Council meeting. Expansion of the prototype is progressing on several fronts. The following tasks have been identified:

- Task 1: Finalize harvester/processor categories, and questions/problems to be addressed.
- Task 2: Finalize vessel and processor profiles.
- Task 3: Write documentation describing expanded programming for peer (and SSC) review.
- Task 4: Describe entry-exit methodology based on short-run profits and capital costs.
- Task 5: Implement expanded version using What's Best!
- Task 6: Formulate specific linear programs/simulation to run.
- Task 7: ~~Simulate alternative using the model.~~
- Task 8: Prepare and deliver analysis of results.

Dr. Berman, Dave Colpo (NMFS/AFSC), and Marcus Hartley will be working jointly on this project. Task 1 has been completed. Task 2 is being developed by Dave Colpo. This task as mentioned earlier is behind schedule. Tasks 3-6 will be done primarily by Dr. Berman, with assistance from Marcus Hartley. Tasks 3 & 4 have been completed in the form of a draft paper for SSC review. This paper will constitute the documentation of the LP model. Marcus Hartley will have primary

responsibility for Tasks 7 and 8, with Dr. Berman available for assistance. It should be noted that work on Task 7 is dependent upon completion of Task 2.

### Fishery Economic Assessment Models (FEAM)

A contract was signed by PSMFC and Dr. William Jensen for development of the FEAM models on October 29, 1993. Dr. Jensen has completed the first phase of model development, and expects the work on the FEAM to be completed by the end of January. Dr. Jensen has already submitted to the Council staff some preliminary documentation of the FEAM model, IMPLAN, and input-output models in general. An IMPLAN seminar has been scheduled for January 17-18, 1994, the Monday and Tuesday following the Council meeting. IMPLAN is the basis for the FEAM model being developed by Dr. Jensen. The seminar should provide participants with a more thorough understanding of the IMPLAN system and Input/Output models in general. Agency economists Darrell Brannan, Marcus Hartley, John McCracken, Seth Macinko and Jeff Hartman have committed to attend. Sally Bibb, Kurt Schelle, and Ben Muse have also shown interest, and are seeking approval to attend.

### Economic Base Models (EBMs)

Dr. Lee Huskey has finished his model runs and delivered a summary of his work. Dr. Huskey indicates that although the results were not as robust as he had hoped, they do provide some insight as well as some measure of the impacts on the support sector resulting from changes in production levels in the basic sector.

### Administration and Enforcement 'Analysis'

Last July an initial meeting was held to discuss 'implementation' issues surrounding the CRP program envisioned by the Council. The purpose was to get a head start on these issues and possibly report information to the Council which might help structure a preferred program. Representatives from the Council, NMFS Region, NMFS Center, NMFS Enforcement, NOAA GC, ADFG, and CFEC were on hand and the meeting was chaired by Jay Ginter.

One specific product from this group which will be needed soon is an estimation of the costs of implementing, monitoring, and enforcing the CRP. The catch, of course, is that we don't yet know exactly what the CRP is going to look like. By January we should at least have a final list of possibilities as to what the program might look like; then we will have to take our best shot at providing these estimates. These are required not just as informational items, but as part of the formal cost/benefit analysis being conducted by Council staff. We have received an initial report from NMFS Enforcement Division regarding the expected costs of enforcing an IFQ program. It is important to note that one of the assessments is that a partial IFQ program is not likely to be any easier or cheaper to enforce, because the infrastructure for such an enforcement program would be the same, regardless of the species included. In fact, the report states that a partial program will likely be more costly to implement, because dual enforcement regimes would be required.

### Community Profiles

The Community Profiles contracted to Winterholm Press have basically been completed, though we are still holding them in draft form to be released to the public with the rest of the analytical package next spring. They will be made available to the contractor of our SIA work (see below) as secondary source materials. The fisheries specific information is based on fish ticket records, which brings up

a problem with the data for the years 1990 and beyond: that is, this data will not contain weekly processor reports and will therefore underestimate the total fisheries activities for some of the communities, particularly those in the Pacific Northwest. That data will be compiled as part of our Analytical Data Base (ADB) for the CRP, so it is possible that it could be included in the Profiles sometime next spring for completeness.

### Social Impact Analysis

We developed a Request for Proposals (RFP) with the help of an invited group of experts in the field of social/anthropological sciences in September, released that RFP in October, and received three (3) proposals. These proposals were reviewed by Council staff, our Social Science Steering Group, and the SSC and Council prior to awarding the contract at the December meeting. The RFP calls for the compilation of baseline participation profiles by industry sector and a limited social impact assessment, due by April 1, 1994. This package will complement the existing in-house analyses as part of the overall CRP analytical package.

As noted above, we have some concerns about the confidentiality issues surrounding the release of some of the secondary data sources listed in the RFP. We are still pursuing those concerns.

### Environmental Assessment

We have not yet drafted any definitive outline for the EA. As noted previously, we expect it to concentrate on identifiable changes in the alternatives from the current fisheries. As such, it seems prudent to wait until the Council has finalized its list of alternatives before going very far with the EA development. We will work in coordination with the AFSC to develop the EA for this package, beginning after the January meeting.

January 12, 1994

Mr. Chairman,

We have been advised that the Council is reviewing a document prepared by the State of Alaska which proposes substantial changes in the elements to be analysed under CRP.

The AP has not seen these proposals and has had no opportunity to comment on them.

We object most seriously to this departure from accepted Council procedure and respectfully request that these proposals be reviewed by the AP before Council action.

John Bruce, Chairman  
Beth Steen, Vice Chair

David Benson  
Al Burch  
Beth Steen

John Lewis

Michael A. Smith  
Bryce Smith  
Dorey Gledhill  
Peter Maloney  
Dean Jacobson  
Pete Payne  
John C. Hoffman  
Stephanie Madsen

January 15, 1994

Mr. Chairman

We have been advised that the Council is reviewing a document prepared by the state of Alaska which proposes substantial changes in the elements to be analyzed under CRP.

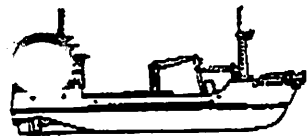
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We object most strongly to this departure from accepted Council procedure and respectfully request that these proposals be reviewed by the AP before Council action.

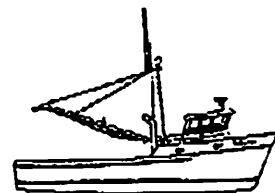
James Bruce, Chairman  
Bethel State College

John Jones

*[Faint, illegible handwritten notes and signatures]*

F/V LADY ALASKA  
F/V LADY KODIAK

**KEVIN SUYDAM**  
**F/V LADY KODIAK — F/V LADY ALASKA**  
**F/V WENONA**  
**P.O. Box 980 • Kodiak, Alaska 99615**  
**(907) 486-5396**



F/V WENONA

North Pacific Fishery Management Council  
 PO Box 103136  
 Anchorage, Alaska 99510

Jan. 8, 1994

JAN 10 1994

Greetings:

I am writing in reference to the controversy over IFQ versus License Limitation in the Comprehensive Rationalization of the BSAI crab fishery. I was the sponsor of the petition opposing IFQ that I submitted in the meetings in Kodiak last summer. We plan to accelerate this opposition but first would like to propose in this letter a compromise and a melding of systems that may satisfy all concerned parties to try to at least get something in place. This concept is a compilation of suggestions and discussions from various individuals whom have a stake in the fishery.

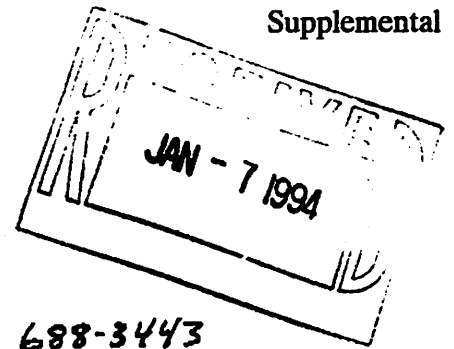
It would be a Vessel&Pot Limit Limited entry license which incorporates a pot limit much as the current pot limit that we are all living with at the present time. We would establish the current number of vessels and gear actively participating today to give us the total of vessels and crab pots in the water to set the maximum limit so as to put a cap and stop future entrants. This would be the most certain way to initiate a system that could not be derailed by opposition of lawsuits of vessels excluded from the fishery; as it being in the simplest form with virtually no contestable issues.

The staunch IFQ proponents that insist IFQ is the only solution must recognize that we could be beating this issue to death for the next ten years and still end up with no program at which time our fishery may be lost. They should also realize they can still promote their desire for IFQ at the aftermath of the resolution of the IFQ controversy which could take many years and many lawsuits before, and even if any IFQ program could be enacted; for which we don't have that time to wait.

There should be no reason why the above form of vessel-gear limited license couldn't be done swiftly. After enactment of the above simplest form of License Limitation; modifications such as the transferability of pots by sale so that some vessels could be bought out, with a cap on total pots owned by any one vessel should be analyzed. As to the concerns of enforceability of pot limits it is no different than the system we are living with now. I'm sure you've never heard of anyone objecting to having Banks for fear that someone someday might rob that Bank.

As controversial as the IFQ system is; if the IFQ proponents keep holding out for a IFQ only, we may have nothing left to fight over, unless we limit the continuing influx of vessels and gear into the fishery now. I would have to think that this would incorporate all parties concerns into one that we could all agree on. Thank you.

Respectfully Submitted,



Capt. Steve Reinhart  
2440 E. Tudor Rd. Ste. 1154  
Anchorage Alaska 99507

688-3443

Rick Lauber, Chairman  
North Pacific Fisheries Management Council  
P.O.Box 103136  
Anchorage Alaska 99510

Mr. Chairman,

I would like the opportunity to express my opinions to the Council regarding the ongoing debate on the IFQ/Limited Entry decisions to be made by the federal government.

I have been a permit holder in several crab and bottomfish fisheries off the coast of Alaska since 1979. There have been many changes in the fisheries in that time span, but none will have as much impact as these decisions.

Although I have not owned a boat since 1982, I am going into the fifteenth year as a skipper in the crab fisheries. Any IFQ program which is implemented cannot leave out those like myself who have dedicated their entire working life to these fisheries. Aside from the fact that it would be a grave injustice, it would not make good economical sense.

If all fishing rights are given to the vessel owners, those who own more than one boat will obviously consolidate their shares and harvest their quotas with one vessel, putting the crews of the other vessels in the unemployment line. Suppliers and service industries depending on the fleet would also be hurt. This would have a serious negative impact on the tax base of the entire coastal communities of the Pacific Northwest. This is what happened on the East Coast and in New Zealand, where similar systems were adopted. A few of the rich got richer and a lot of people lost their jobs.

There are also numerous legal questions that will have to be overcome. How will vessel owners get the catch records needed to prove the catch history of their vessels? I would certainly not allow any of the fish tickets that are in my name be used to determine IFQs for someone else. Fish ticket information is not public property, and if they are made so, then the government risks the chance of having to eliminate all confidentiality laws. Can you imagine the legal uproar over the removal of doctor-patient, lawyer-client, and journalist-informed source confidentiality laws? We'd never see the end of it.

The vessel owners have already got the protection of the vessel moratorium to safeguard their interests. The limited entry system should be used to safeguard the interest of the majority of the people involved in the fisheries.

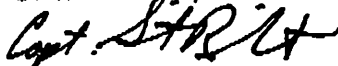
We also have to address the fact that there are some crab fisheries that have been closed for several years. Eventually the stocks in the Dutch Harbor, South Peninsula, Kodiak, Cook Inlet and others may rebuild enough to have a fishery. However, for those areas which have been closed for several years, the current IFQ plan has no plan that I know of. Nobody has a catch history in some of those areas over the last ten years.

I would like for the council to back a system similar to the salmon limited entry system. A permit holder would be allowed a certain number of points for each year fished in each area. If the permit holder has earned enough points through previous participation, then he shall be allowed a permit for each area that he qualifies in, and will be allowed to harvest as much as he is able. This would effectively limit the growth of the fleet while keeping the maximum number of people employed. Pot limits seem to be effective in helping Fish and Game manage the crab stocks without over harvesting.

In summary I would like to say that whatever system the Council adopts, the right to fish must be given to those who have spent their lives on the water actively participating in the fisheries. It doesn't make sense to give all the fishing rights to vessel owners who are already protected by the moratorium. The permit holder needs the vessel owner to maintain his livelihood and the owner needs a good fisherman to maintain his. It's not always a match made in heaven, but by giving all the rights and power to the vessel owner, the entire industry will be controlled by too few.

I appreciate you taking the time to read this, and trust you will inform the other Council members of my position regarding this issue.

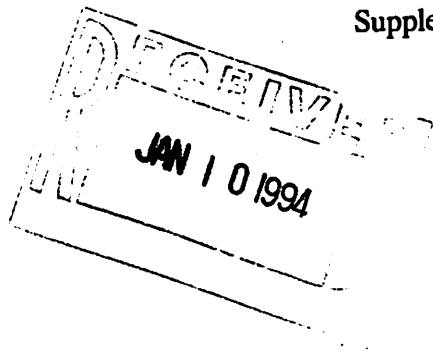
Sincerely,



Capt. Steve Reinhart

P.S. I wouldn't trade you jobs for all the tea in China!





January 06, 1994

Rick Lauber  
North Pacific Fisheries Management Council  
P.O. Box 103136  
Anchorage, AK 99510

Dear Mr. Lauber,

I have been fishing since 1974 and operating crab boats under lease agreements since 1979.

I do not believe IFQ's will help our existing rules and regulations. Limiting the fleet through no new entrants and a pot limit slows the catch rate to a biologically acceptable level.

IFQ's, if considered at all, must take into consideration the active participation in the business, of the people on the boats, not just the vessel owners.

The idea of quota shares going to processors and to communities to use for development in an already overdeveloped fishery is ridiculous!

Thank You,

Chris A. Wythe  
Leaseholder/operator  
Box 452  
Homer, AK 99603

P.S. You might consider scheduling the meetings so that active participants in the fishery can contribute to the process.



PACIFIC SEAFOOD PROCESSORS ASSOCIATION  
4019 - 21st Ave. West, Suite 201  
Seattle, WA 98199  
(206) 281-1667  
FAX (206) 283-2387

January 9, 1994

Mr. Clarence Pautzke  
Executive Director  
North Pacific Fishery Management Council  
P.O. Box 103136  
Anchorage, Alaska 99510

Re: Comprehensive Rationalization C-1

PSPA respectfully requests the North Pacific Fishery Management Council continue development and analysis of the existing suite of CRP alternatives, which includes:

- 1) a "two-pie" allocation of separate catching and processing quota shares of respective industry components,
- 2) a single allocation of quota shares to both the catcher and processing segments,
- 3) a license limitation system coupled to an industry funded by-back program for groundfish and crab fisheries.

The current management alternatives incorporate legitimate concerns which major sectors of the industry have requested to be analyzed, developed and reviewed.

NORTH PACIFIC FISHERIES PRESENT A FUNDAMENTALLY UNIQUE MIX OF PARTICIPANTS. THE PRESENCE OF FACTORY TRAWLERS CHANGES PREDICTABLE ITQ RESULTS. AN ARRAY OF ALTERNATIVES IS NEEDED FOR ANALYSIS IN ORDER TO ASSESS COMPETITIVE, SOCIAL, AND ECOLOGICAL OUTCOMES.

In contrast to other fisheries where ITQs have been developed, the North Pacific groundfish and crab fisheries feature co-dependent catcher vessels delivering to on-shore processors and motherships; as well as competing vertically integrated at-sea processors which catch and process their own fish. Given this unique mix the economic, social, and ecological consequences of imposing an ITQ and granting significant economic competitive rights will be vastly different than in existing ITQ fisheries serving as examples. For this reason development of the Council CRP program must continue to examine the legitimate needs and concerns of all the existing major industry sectors which necessarily intervene between the North Pacific fishery resource and the consumer: i.e. harvesters and processors both on-shore and at-sea. The current suite of options also provide the best opportunity to develop an equitable and effective comprehensive rationalization system (CRP) for the

entire industry. Further development of all these options will facilitate meaningful industry negotiations, reduce the desire to oppose CRP, and ultimately speed up development of an appropriate CRP program.

**THE COUNCIL PRESENTLY HAS NO ANALYSIS UPON WHICH TO EXCLUDE OR CHOOSE BETWEEN EXISTING MAJOR ALTERNATIVES.**

Presently there is no body of analysis upon which the Council can assess the relative economic, social, or resource consequences between major alternatives. We are advised by NMFS and Council staff proper development of the CRP system will take several years because of the enormous size and complexity of the fishery. As a predicate to eliminating any of the major alternatives at this stage, and in light of the significant competitive and social concerns which have been identified by the on-shore community, the Council must first quantify the likely competitive, economic, social, and ecological outcome of the current major alternatives defined. Only through further development will the Council have a basis of comparison upon which to make an informed choice.

The Council will best promote efficiency and fairness within a CRP system by insuring no segment of the industry is more favorably treated than any other in the implementation of a CRP system. Arbitrary exclusion of any major alternatives at this stage is likely to be a mistake as major industry components may be excluded from the initial distribution system. This will in turn create via initial ITQ quota distribution, new competitive disadvantages between competitive sectors, producing significant economic losses which should be identified, analyzed and quantified. The Council should not blindly impose relative economic disadvantage and negative consequences upon a competing industry sector by arbitrarily excluding alternatives needed to fairly fashion an ITQ system.

**INCLUDING ALL INDUSTRY COMPONENTS IN INITIAL ITQ ALLOCATIONS PRESERVES STABILITY IN THE FISHERY AND DIVERSITY AMONG ITS PARTICIPANTS**

Developing a symmetric allocation system presents a path towards timely resolution of the CRP mandate. In contrast, exclusion of a major industry sector, results in a death spiral for those industry

participants excluded - or political gridlock preventing ITQ approval.

The Council's record already contains substantial evidence that rewarding harvesters in the initial allocation, while excluding on-shore processors (an asymmetric system), allows those who benefit to prey upon and extract investment value from those not receiving initial quota shares. Asymmetric receipt of quota shares among competitive sectors constitutes an unfair competitive advantage. Asymmetric shareholders are empowered by a private right to use of the public's resource. This right can be leveraged into a tremendous capital asset. Such an asymmetric system among current North Pacific industry participants will fail to achieve either economic efficiency or equitable distribution of quota shares. Imposition of an asymmetric initial allocation is simply unfair and clearly disruptive to industry stability.

**ECONOMIC EFFICIENCY AND EQUITABLE SHARE DISTRIBUTION AMONG INDUSTRY SECTORS MUST REMAIN A MAJOR POLICY OBJECTIVE OF CRP.**

The principal policy objectives of an initial quota share allocation ought to include both economically efficient utilization of the resources, as well as distributional equity among the industry sectors based upon their history of participation. Catchers, on-shore processors and off-shore processors, all contributed substantial financial investment, developed a significant job force, and have ties to social communities as a result of past participation in the fishery. None of these industry sectors should be placed at a competitive advantage or disadvantage over other existing sectors simply because a CRP system is implemented.

**DELIVERY REQUIREMENTS BY THEMSELVES ARE INSUFFICIENT TO BLOCK THE IMPACT OF AN INITIAL ASYMMETRIC QUOTA ALLOCATION. EXCLUSION OF ON SHORE PROCESSORS PRESENTLY INVESTED IN THE INDUSTRY WILL SEVERELY HARM ON-SHORE PROCESSORS, COASTAL COMMUNITIES, DEPENDENT BUSINESSES, AND REMOVE COMPETITIVE MARKETS FOR FISHERMEN.**

A new competitive advantage will be created between sectors if on shore processors are left out of the initial distributional scheme. That disadvantage is not remedied by a simple on-shore delivery requirement - the competitive value of receiving initial North Pacific ITQ shares would be overwhelming against those

January 9, 1994

Page 4

excluded. If on-shore processors are excluded from initial ITQ allocations the Council should anticipate a permanent distributional shift of ITQ quota away from existing on shore processors. This will result in significant loss of the current on-shore processing economic contributions to Alaska, Washington, Oregon and the Nation. Loss of direct jobs and support businesses directly and indirectly dependent on on-shore processing operations would result. We would also expect significant social disruption throughout Alaska and the Pacific Northwest, accompanied by some destruction of economic strength within coastal communities. These prospects can be avoided if everyone is included with the initial quota allocation.

**UNDER ANY ITQ SYSTEM, BOTH HARVESTERS AND PROCESSORS MUST BE REGULATED. EACH SECTOR IS ESSENTIAL TO PRODUCTIVELY CONDUCT AND MANAGE THE FISHERY.**

Any ITQ system featuring a harvester only allocation will still require continued regulation and monitoring of processors as well as harvesters. Processors are actively regulated and monitored within the present open access system. Management responsibilities remain constant under the symmetric quota share system.

On shore processors file data reports utilized extensively in the fishery management system. NMFS observers provide data taken directly from on-shore processing operations as well as vessels delivering to on-shore processors. On shore processing companies are subject to NMFS enforcement actions, are required to bear the cost of observer coverage, and have been made responsible for a wide variety of other federally mandated requirements. On shore processors play a vital and necessary role in the North Pacific fisheries and should be recognized as participants receiving initial quota.

The New Zealand ITQ system provides ample evidence of the need to include on shore processors within the management and allocation system. Licensed processors must report landings and finished product weights as part of the ITQ enforcement system. As such they are subject to regulatory enforcement sanctions. Enforcement depends upon reconciling raw and finished product weights.

**PRECEDENT EXISTS TO IMPLEMENT A SYMMETRIC ITQ SYSTEM WHICH INCLUDED ON-SHORE PROCESSORS**

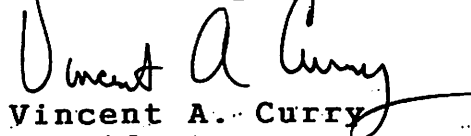
January 9, 1994  
page 5

A symmetric quota allocation was the cornerstone of the New Zealand ITQ policy. That policy was founded on the principal that the allocation system must

... "take into account commitment to the fishing industry, and reflect the extent of existing investment. They measure the companies involvement in and commitment to both the catching and processing sectors of the industry. By equally weighing the catching and processing sector components, no segment of the industry is more favorably treated than any other." (New Zealand Ministry of Agriculture and Fisheries. "Future Policy for the Deep-Water Fishery." July, 1982)

PSPA urges the Council to continue development of ITQ alternatives which give credit to both the catching and processing sector components, so each is treated equally within any future quota allocation system.

Yours truly,

  
Vincent A. Curry  
President

Enclosure: ITQ Processor Quota Share Example

SYMMETRIC QUOTA SHARES (SQS)

1. Initial distribution of harvester quota shares to major industry sectors: catcher vessels, catcher processors, on-shore processors (symmetric initial allocation).
2. Individual catch and/or processing history used as the basis for initial allocation for recipients within each sector. Qualifying criteria individually tailored for each sector.
3. Each harvest quota share is comprised of both a harvest component, and a processing component. The system monitors matched components, and therefore manages use of the harvest quota share system.
4. Harvesters, processors, and catcher processors all have the same rights to enter into deals and use their quota as they see fit. They may catch or process their quota as they so desire by themselves, or in concert with others.
5. Symmetric bargaining power among industry sectors for lease or sale arrangements exists. All sectors are initially eligible to receive quota rights, and system imposes equal need between bargaining parties to increase business.
6. Use of the harvester share requires a matching of the harvesting and processing component.
7. Quota holders gain rights to use larger blocks of quota by a) outright purchase and consolidation, or b) entering into long term contracts matching harvest and processing components: e.g. a fisherman's initial harvest quota can be increased by receiving use of additional harvest components owned by another through the matching of shares. The exchange of use rights through a long term lease promotes fair bargaining between equally benefitted participants and industry stability.
8. Outright sale of quota allowed only for a share of the combined harvest and processing quota.

EXAMPLE

100 ton TAC

A) initial allocation:

33% quota shares (catch & processing) to factory trawlers

33% quota shares (catch & processing) to catcher vessels

33% quota shares (catch & processing) to processors

B) result of lease agreements by sector

33% harvested & processed by factory trawlers

66% harvested & processed by catcher vessels & processors



January 4, 1994

Mr. Rick Lauber, Chairman  
North Pacific Fishery Management Council  
P.O.Box 103136  
Anchorage, Alaska 99510

Dear Mr. Lauber,

We the undersigned, as members of Skippers for Equitable Access, would like to express our continuing concern that Captains be included in the Councils plans for Comprehensive Rationalization. We have appeared before the Council at the last several meetings and have presented you with proposals for our inclusion in the CRP limited access plans. These plans are currently being analyzed by Council staff and we are working with the staff to aid them in this analysis in any way we can.

Due to the timing of the upcoming January Council meeting it will be very difficult for many of our members to attend. With both the Opilio crab, and Pollock A seasons beginning in mid January most of our members will be busy fishing. We wish to stress that lower representation at this meeting does not demonstrate a lack of interest but, rather, is a result of the physical impossibility of our members attendance.

We will have a representative at the upcoming meeting and look forward to our continued participation in the CRP planning process.

Tom Suryan

Walt Christensen

Jorn Kvinge

Dan Hansen

Bob Hezel

Ben Stevens

Bob Desautel

Kim Brown

Jay Cox

Gary Covich



December 6, 1994

Mr. Rick Lauber  
Chairman N.P.F.M.C.  
P.O. Box 103136  
Anchorage, Alaska 99510

Dear Council Members,

We are unable to attend this council meeting in Anchorage because of the opening of the Ground fish and Opilio crab fisheries. As Skippers and members of S.E.A. we urge the council to continue to recognize our participation in the fisheries by including us in the CRP.

It is a very complex issue before you. One that will affect the whole industry. The question of where to draw the line is one of the concerns raised. As the permit holder and person most responsible for the actual harvesting of the resource we feel we have a justified claim.

The skipper is the holder of the permit to harvest the resource. The vessel is the vehicle to carry out the operation. It should not go beyond that.

Dutch Harbor, Alaska

*Jim Brady*

*[Signature]*

*[Signature]*

*Ben A. Stevens*

*[Signature]*

CITY OF UNALASKA  
UNALASKA, ALASKA

RESOLUTION NO. 93-115

A RESOLUTION OF THE UNALASKA CITY COUNCIL URGING THE NORTH PACIFIC FISHERIES MANAGEMENT COUNCIL TO CONSIDER THE CONTINUED PARTICIPATION OF THE SHOREBASED PROCESSORS IN THE COMPREHENSIVE RATIONALIZATION PLAN.

WHEREAS, the shorebased seafood processing industry contributes jobs, taxes, stability to the Alaska economy; and

WHEREAS, according to the State of Alaska Departments of Commerce, Labor, and Revenue and the Alaska Seafood Marketing Institute, in 1992 the Alaska seafood processing industry harvested more than 5.5 billion pounds of fish, processed this fish in more than 500 large and small Alaska seafood processors registered with the state, paid fish harvesters \$1.4 billion, provided a total shorebased payroll exceeding 35,000 Alaskan jobs, spent \$280 million to support its activities, paid over \$60 million in taxes and cash benefits to the state and Alaska's coastal communities, paid \$10 million for salmon enhancement, paid \$700,000 in fisheries related and marine mammal research and \$3.2 million for marketing Alaska's seafood domestically, invested \$1 billion in shoreside plants, paid \$11 million to local governments in municipalities fish taxes, and paid over \$3 million in local real and property taxes; and

WHEREAS, in Unalaska, Western Alaska, the Aleutians and Kodiak, Alaska's shorebased processors pay over \$400 million annually to harvesters; process 1.25 billion pounds of crab, groundfish, salmon, herring, and halibut; employ over 13,000 people; pay over \$90 million in annual payroll; purchase \$45 million in goods, services, and utilities; pay over \$7 million in local raw fish taxes; and in 1992 paid over \$900,000 in grants to non-profit organizations; and

WHEREAS, the North Pacific Fisheries Management Council (NPFMC) is considering the adoption of individual fishery quotas (IFQ) as a management scheme for the groundfish and crab fishery; and

WHEREAS, the concept of IFQs means granting individual fish harvesters or boat owners ownership of a share of these offshore groundfish and crab resources to the exclusion of others currently participating in the fisheries; and

WHEREAS, the IFQ system provides no incentives or requirements for fish harvesters and boat owners to sell their catch to onshore processors and creates incentives to deliver and to sell to offshore motherships and factory trawlers; and

WHEREAS, that result would greatly reduce the groundfish and crab sold to shorebased processors; and



CITY OF UNALASKA  
RESOLUTION NO. 93-115  
PAGE TWO

WHEREAS, the shutdown or reduction in shorebased processing operations will greatly reduce the contribution made to state and local taxes and the economy by shorebased processors and, thus, severely and adversely impact the jobs, taxes, social and economic stability of coastal communities in Alaska; and

WHEREAS, the current open access fishing regime coupled with an onshore allocation of a percentage of the groundfish and crab to the shorebased processors was contained in the 1992 groundfish plan of the NPFMC and did allow the continuation of the shorebased processors' participation in the fishery and contribution they make to the jobs, taxes, social and economic stability of Alaska's coastal communities.

NOW THEREFORE BE IT RESOLVED that the Unalaska City Council urges the North Pacific Fisheries Management Council to incorporate fairness, equal rights of access, and equity to the current participants in the groundfish and crab fishery in the management plan it is now considering in order to ensure the continued participation of the shorebased processors in these fisheries and the benefits they bring to Alaska's coastal communities and the State of Alaska.

PASSED AND ADOPTED BY A DULY CONSTITUTED QUORUM OF THE UNALASKA CITY COUNCIL THIS 14 DAY OF December, 1993.

  
MAYOR

ATTEST:

  
CITY CLERK

**CITY OF UNALASKA  
FY93 GENERAL FUND REVENUES  
MAJOR GENERAL FUND REVENUE SOURCES**

<u>Source</u>	<u>Total</u>	<u>% of Total</u>
Sales Tax	4,199,095	24.7
Local Fish Tax	3,131,611	18.4
State Shared Fish Tax	3,581,134	21.1
Property Tax	3,168,122	18.6
All Others	2,909,279	17.1
	-----	-----
Total General Fund	16,989,241 <sup>1</sup>	99.9

<sup>1</sup>Note: total does not include State of Alaska capital project appropriation, special revenue fund and enterprise fund revenues.

**CITY OF UNALASKA  
FY93 GENERAL FUND REVENUES  
ONSHORE FISH TAX AND PROPERTY TAX CONTRIBUTIONS**

	<u>Onshore</u>
Local Fish Tax	3,131,611
State Shared Fish Tax	3,581,134
Property Tax	1,639,916
	-----
<b>Total Onshore Fish &amp; Property Tax</b>	<b>8,352,661<sup>1</sup></b>
Total GF Revenues	16,989,241 <sup>2</sup>
% of Total GF Revenues	49.2

<sup>1</sup>Note: total does not include sales tax or indirect revenues from onshore processors.

<sup>2</sup>Note: total does not include State of Alaska capital project appropriation, special revenue fund and enterprise fund revenues.

**CITY OF UNALASKA  
PROPERTY TAX  
FY93 ASSESSED VALUES**

	<u>Onshore<sup>1</sup></u>	<u>Total</u>	<u>% Onshore</u>
Real Property Tax	828,078	1,875,437	44.2
Personal Property Tax	811,838	1,292,685	62.8
<b>Total</b>	<b>1,639,916</b>	<b>3,168,122</b>	<b>51.8</b>

	<u>Offshore<sup>2</sup></u>	<u>Total</u>	<u>% Offshore</u>
Real Property Tax	178,595	1,875,437	9.5
Personal Property Tax	64,420	1,292,685	4.9
<b>Total</b>	<b>243,015</b>	<b>3,168,122</b>	<b>7.7</b>

<sup>1</sup>Alyeska Seafoods, East Point Seafoods, Icicle Seafoods, Royal Aleutian Seafoods, San Souci, Trident Seafoods, Unisea, Westward Seafoods

<sup>2</sup>Arctic Alaska, Crowley Marine Service, Factory Trawler Supply, Freight Management Services, Northern Eagle Partners, Northern Hawk Partners, Northern Jaeger Partners, Ocean Trawl, Offshore Fuel, Offshore Systems Inc

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**FY93 GENERAL FUND REVENUES**  
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**CITY OF UNALASKA  
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DAVID WILKSTRAND C-1  
BOX 1500  
HOMER AK 99603  
JAN '94

NPC

COUNCIL-CHAIRMAN RICHARD LAUBER.

### 1. OVERCAPITALIZATION.

- A. NOT THE VESSELS BUT WHAT THEY DO; HOW THEY FISH IN PRUDENT OR DESTRUCTIVE WAYS.
- B. GEAR TYPES DETERMINE CLEAN FISHING, NO OTHER MEANS WILL.

### 2. IFQS, LIMITED ENTRY, MORATORIUM

- A. IFQS - OWNERSHIP, ANTI TRUST MONOPOLY, BENEFITS FEW
- B. LIMITED ENTRY - PROVEN BY THE STATE OF ALASKA
- C. MORATORIUM - ESTABLISHES CUT OFF DATE

### 3. VESSEL, GEAR AND AREA REGULATIONS.

- A. IMPROVE SAFETY USEG INJURIES + FATALITIES DOWN IN 1993 - JUST STATE
- B. REDUCE BYCATCH
- C. PROTECTS P.S AND ENDANGERED SPEC ANIMALS
- D. NO GEAR REDUCTION IN DESTRUCTIVE FISHERIES.
- E. AREA CLOSURES OCCURRING TO LATE.
- F. NO ~~FINES~~ <sup>GEAR RESTRICTIONS</sup> OF ANY MAGNITUDE PLACE ON WANT + WASTE OF FISH

### 4. BYCATCH. BEING DISCARDED.

- A. WASTED RESOURCES NOT BEING UTILIZED TO THE GREATEST OVERALL BENEFIT TO NATION.
- B. LOSS OF REVENUES TO STATE OF ALASKA + BOROUGHES, FOR YEARS \$H
- C. LOSS OF REVENUES TO ESTABLISHED
- D. ENDANGERING P.S + ANIMALS, FOOD CHAIN, YEAR CLASSES OF FISH ARE MISSING. BEAK HERRING + BS POLLOCK ALMOST IMPOSSIBLE
- E. BYCATCH HAS CREATED CLOSURES + RECOVERY <sup>V</sup> OF ESTABLISHED FISHERIES. WHO KNOWS HOW LONG TELL A O.Y.H CAN OCCUR AGAIN.
- F. ALL BYCATCH RETAINED AT VESSELS EXPENSE AND DISTRIBUTED.

### 5. FINES + RESTRICTIONS

- A. NO FINES OF SIGNIFICANCE TO DEETER DESTRUCTIVE FISHING/TORRE

DAVID HILLSTRAND  
Box 1500  
Homer AK 99603

## 1. OVERCAPITALIZATION.

A. TO MANY VESSELS ENTERING INTO THE FISHERIES ARE CONSIDERED A PROBLEM TO THE NPC AND NMFS. THIS IS NOT A COMPLETE STATEMENT. FOR NO MATTER HOW MANY BOATS ARE PARTICIPATING, THE O.Y. HARVEST WHICH THE NPC SETS IS ONLY BEING HARVESTED.

B. THE PROBLEM IS A LARGE NUMBER OF VESSELS FISHING IN A DESTRUCTIVE WAY.

1. WITH GEAR THAT CAUSES LOSS OF HABITAT.

2. GEAR THAT IS NOT SELECTIVE IN ITS CATCH IN CERTAIN FISHERIES LEAVING AN UNDESIRABLE PRODUCT, REDUCTION OF QUOTAS IN ESTABLISHED FISHERIES, AND ENDANGERMENT TO PROTECTED SPECIES; P.S.,  
SPECIES

3. HANDLING OF FISH TO WHERE IT IS BEING WASTED.

1. IT IS A CRIME TO WASTE FISH + GAME IN ANY VOLUME, DOWN TO ONE FISH OR ANIMAL

## 2. MORATORIUM, LIMITED ENTRY, AND IFQS TO LIMITED ACCESS

A. THE NPC AND NMFS CAN NOT CREATE A MONOPOLY OF A PUBLIC RESOURCE. FOR THIS VIOLATES THE MAGNUSON ACT + THE ANTI TRUST LAW.

1. IFQS CREATE OWNERSHIP OF A RESOURCE BELONGING TO THE PUBLIC.

2. IFQS CAN REDUCE CAPITALIZATION TO A SMALLER LEVEL THAN DESIRED; OTHER NATIONS.

3. IFQS MAY NOT REDUCE EFFORT ENOUGH TO BE A MANAGEMENT TOOL ALONE.

B. LIMITED ENTRY BASED ON PERMIT HOLDERS, AND OWNERSHIP OF VESSEL OR GEAR CREATES ADDITIONAL PERMITS AND DOES NOT RESTRICT VESSEL GROWTH OR GEAR:

1. SEPARATE IFQ ALLOWANCES TO SHOREBASED PROCESSORS CAN CAUSE PRICE FIXING, WHICH OCCURS ALREADY.
2. IF USED SUCH AS THE STATE OF ALASKA; THE NPC SHOULD MODEL THE LE, WITH ADDITIONAL VESSEL + GEAR RESTRICTIONS, THE STATE SAW GROWTH IN VESSEL SIZE; AND IN THE HARVESTING CAPABILITY OF GEAR. THEY HAVE IMPOSED VESSEL SIZES AND GEAR RESTRICTIONS, IN A NON DISCRIMINATIVE MANNER.
3. THE STATE OF ALASKA HAS BEEN THROUGH THE COURTS AND IS NOT AN OWNERSHIP OF RESOURCES BUT A FISHING RIGHT. AND THEREFORE NOT IN VIOLATION OF THE ANTI TRUST LAW.

C. THE MORATORIUM ESTABLISHES A DATE SO THAT THE NPC CAN IMPOSE REGULATION IN GEAR + VESSEL GROWTH + EXPANSION AND ABC, TAC QUOTAS CREATING ECONOMIC STABILITY TO THE RESOURCE. NOT A GREEDY MONOPOLY OF OUR RESOURCE. DO NOT LET THE ADVISORY PANEL BE RUSHED ALONG BY THE N.P.C. YOU ARE THE PUBLIC'S CHECK AND BALANCE.

3. VESSEL, GEAR AND AREA REGULATIONS,

- A. SAFETY IS IMPROVING WITH USCG REGULATIONS; INJURIES + FATALITIES ARE DOWN FOR 1993, BECAUSE OF INCREASED REGULATIONS AND REQUIREMENTS
- B. GEAR RESTRICTION WILL REDUCE EFFORT WITH OUT REDUCING VESSELS AND ACHIEVE REDUCED BYCATCH.
- C. SELECTIVE GEAR WILL PROTECT PROTECTED SPECIES + ENDANGERED ANIMALS.

COMMISSIONER OF THE DEPT. OF FISH AND GAME; CARL ROSIER, AND ALL KIMBER REGIONAL SHELLFISH BIOLOGIST COOKINLET/PRINCE WILLIAM SOUND.

A. IN THE HALIBUT/BLACKCOD FISHERIES 8000 BOATS DOWN TO 5000, TO BE USED ALONG THE FISHERIES CAN STILL BE ABUSED, WITHOUT FURTHER RESTRICTIONS APPLIED.

4. IFQs CREATE A MONOPOLY, WHEN A CAP IS SET; SUCH AS, 1% THE TOTAL AMOUNT OF VESSEL COULD BE 100. VIOLATING THE ANTI TRUST LAW.

5. OWNERSHIP OF A RESOURCE THROUGH IFQs CREATES PROBLEMS IN THE MAGNUSON ACT OF 1980 IN THE OPTIMUM YIELD. "THAT LEVEL OF CATCH" INCLUDES SUBSISTANCE, RECREATIONAL USE, AND COMMERCIAL HARVEST. THIS ORDER IS NEEDED FOR AN OVERALL BENEFIT TO THE NATION.

A. THIS IS SEEN WITH THE RECENT CONFRONTATION OF THE RECREATIONAL USERS IN KACHEMAK BAY AND OTHER COASTAL COMMUNITIES; STATING THAT THE RECREATIONAL USERS MAY HARVEST THE TOTAL ALLOWABLE O.Y.H. THERE BY ELIMINATING THE IFQ PROGRAM THE NPC HAS SET IN PLACE. WILL THIS LEAD TO IFQ OWNERSHIP OVERRIDING SUBSISTENCE?

6. THE NPC AND NMFS DO NOT HAVE THE RIGHT TO TAKE A PRIVATE RESOURCE AND PRIVATIZE IT, CREATING A MONOPOLY + VIOLATING CHECKS + BALANCES.

THE NPC + NMFS HAS THE PRIVILEGE OF PRESERVING OUR RESOURCES THROUGH FAIR + RIGHT MANAGEMENT AND REGULATIONS

2. LOSS OF REVENUE TO THE STATE OF ALASKA AND LOCAL BOROUGHS, FOR YEARS \$

3. ESTABLISHED FISHERIES ARE LOSING REVENUES BY ALLOWING BYCATCH TO BE TAKEN OFF OF THE QUOTA FOR THAT SPECIES.

4. BYCATCH IS ENDANGERING P.S + ANIMALS  
A. FOOD CHAIN.

B. TOTAL YEAR CLASSES OF HERRING, COD + POLLOCK ARE MISSING. TOOK + BS.

5. COLLAPSE OF ESTABLISHED FISHERIES FROM EXCESS PRESSURE CREATED BY BYCATCH IS OCCURRING FROM DRAGGING.

6. BYCATCH SHOULD NOT BE ALLOWED OF A SPECIES IN AN ESTABLISHED FISHERIES.

A. BLACKCOD WITH HALIBUT B.C.; HALIBUT SHOULD BE

RETAINED ALONG WITH ARROWTOOTH, COD + SMALL HALIBUT. NO WASTE OF FISH SHALL OCCUR. IT SHOULD BE SOLD, TAXED FOR STATE + BOROUGHS INCOME, WITH REMAINDER SPLIT UP BETWEEN THE DIRECT FISHERY PARTICIPANTS, OR OFF SET OF THE TAX OF THE STATE + BOROUGHS.

$4,000,000 \text{ MIL LBS} \div 8000 \text{ BOATS} = 500 \text{ LBS PER BOAT}$  4 MIL LBS OFF OF THE SET QUOTA OF 36 MILE = 32 MIL LBS TO BE HARVESTED

7. ALL BYCATCH RETAINED + PROCESSED AT VESSELS EXPENSE  
A. HALIBUT FISHERIES; CRUCIFIES, FISH SUCH AS ARROWTOOTH, COD + ~~ALL~~ SMALL HALIBUT + THEN DISCARD OVER THE SIDE.  
B. UNOBSERVED TRAWL FLEET SORTS THROUGH THEIR CATCH.

## 5. FINES + RESTRICTIONS

A. ARE A DETERENT TO VIOLATIONS

1. LOSS OF PRODUCT, LICENSE, VESSEL + JAIL TIME

B. NO REWARD FOR CLEAN FISHING; OTHER THAN BEING ALLOWED TO PARTICIPATE AND HARVEST RESOURCES.

C. RESTRICTIONS MUST BE IMPOSED THE INDUSTRY WILL NOT REGULATE ITSELF TO NEEDS CHECKS + BALANCES THE ADVISORY PANEL, NPF, NMFS. OVER CAPITALIZATION WILL OCCUR WITH LARGER VESSELS, AND GEAR SIZE AND VOLUME; SUCH AS NETS AND CRAB POTS.

*Jeff Hendrickson*



# ALASKA OCEAN SEAFOOD

LIMITED PARTNERSHIP

January 10, 1994

Dr. Clarence G. Pautzke  
Executive Director  
North Pacific Fishery Management Council  
P.O. Box 103136  
Anchorage, Alaska 99510

Re: Agenda Item C-1/Comprehensive Rationalization Plan/  
Initial QS Calculation Options

Dear Dr. Pautzke:

I am General Manager of the Alaska Ocean Seafood Limited Partnership and an owner and principal captain of the surimi factory trawler ALASKA OCEAN. I have been involved in the Alaska crab and groundfish fisheries since 1969 -- almost 25 years. Since 1982, I have owned and operated vessels engaged in the pollock fisheries.

The ALASKA OCEAN is the largest and one of the most modern surimi factory trawlers in the U.S. fleet. My partners and I committed to the ALASKA OCEAN project in 1987. After two years of negotiation and effort to develop a design and find a shipyard to build the project on a cost-effective basis, we acquired a project under construction and adapted it to our requirements. The ALASKA OCEAN was completed and entered the Alaska pollock fishery in 1990.

I would like to express my views and the views of Alaska Ocean Seafood on the subject of the "comprehensive rationalization" of the groundfish fisheries and specifically on the options for initial Quota Share calculations that you are considering.

My comments are most directly aimed at the Bering Sea/Aleutian Islands pollock fishery, since pollock is our primary target species.

I want to make two main points:

First: Alaska Ocean supports an IFQ program based on present participation (Council Options B and C for Initial QS Calculation). An allocation of IFQs to "present participants" in the groundfish fisheries, based on their catches in 1991-93, would correctly recognize the legal and equitable claims which



Dr. Clarence G. Pautzke  
January 10, 1994  
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all current participants in these fisheries have acquired by investing their capital and their efforts in these fisheries.

1991 is the first year that pollock was 100% harvested and processed by domestic operations; the years 1991-93 accurately reflect "present" conditions.

Second: We oppose consideration of any option which would reallocate these fisheries away from present participants and the harvest shares that they are currently able to achieve, based on catch histories that do not reflect present conditions. More specifically, we oppose Council Option A for Initial Quota Share Calculation. We have carefully analyzed each of the "catch history" suboptions under Option A and have concluded that, if adopted, each of them would destroy the most recent entrants into these fisheries, including Alaska Ocean.

All groundfish harvesters who entered the Alaska groundfish fisheries or made contractual commitments to enter these fisheries prior to the Council's moratorium on new entry participate in these fisheries today on equal terms. We all made our plans and invested our energies and our resources in vessel projects at a time when the Alaska groundfish resources were underutilized by U.S. fishermen and when U.S. policy encouraged the development of U.S. harvesting and processing capacity. The moratorium has effectively controlled capitalization of offshore harvesting and processing. The harvest shares which each of us has been able to achieve, under the present regime, have been determined by our own energies and skills and by our capital investments. Each of us has had an equal opportunity to make productive use of the groundfish resources of the U.S. EEZ in common with all other harvesters.

Earlier entry really means only that the earlier entrant has had more good fishing years to pay off his boat mortgage and establish a healthy bank account. Those participants have already been paid for their catches and product sales. Some, in fact, have sold their vessels and companies for substantial profits. Allocating to catch history would be like paying these earlier entrants a second time -- generating massive windfall profits -- at the expense of later entrants. There is absolutely no rational basis for using catch histories to reallocate National resources away from present participants in the groundfish fisheries.

Given that the moratorium on entry would be continued by an IFQ system, the purpose of moving forward to an IFQ system is to eliminate the current "Olympic System" by privatizing the resource. There is no need to reallocate the resource to privatize it.

Dr. Clarence G. Pautzke  
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We see the options before you, which would redistribute the catch of pollock based on catch histories not reflective of present conditions, as an effort by some to use the political process to grab by political means what they cannot achieve on the fishing grounds. We believe that the use of catch histories to redistribute a National resource away from present participants has no basis in law or in logic and would be extremely inequitable. We are afraid that the desire for windfall profits which motivates this effort -- and you can feel it in this room -- may be strong enough to sweep away every other consideration.

To re-emphasize:

(1) Alaska Ocean supports an IFQ system based on present participation, as represented by 1991-93 catch histories.

(2) Alaska Ocean opposes consideration of the IFQ options which would reallocate harvesting rights away from present participants in the groundfish fisheries, based on the timing of a harvester's entry into these fisheries. The timing of entry should be irrelevant to any legitimate allocation scheme, assuming compliance with the Council's moratorium. The fact is that we are all here now, we have all participated in the Americanization of these resources, we all have an equal right to make productive use of these resources and we have all relied on that right in making investments in these fisheries.

The Council can rationalize the harvest of groundfish without taking harvesting shares away from one group and giving them to another. These resources can be privatized, based on present participation, without reallocation.

We need to rationalize these fisheries based on current conditions, not historical conditions. We do not need to reallocate the benefits of these fisheries among historic users.

As the Administrator of NOAA urged in reluctantly approving Amendment 18/23, the Council should "avoid any further efforts to select winners and losers in the pollock fishery when there appears to be no economic gain to the nation from such efforts."

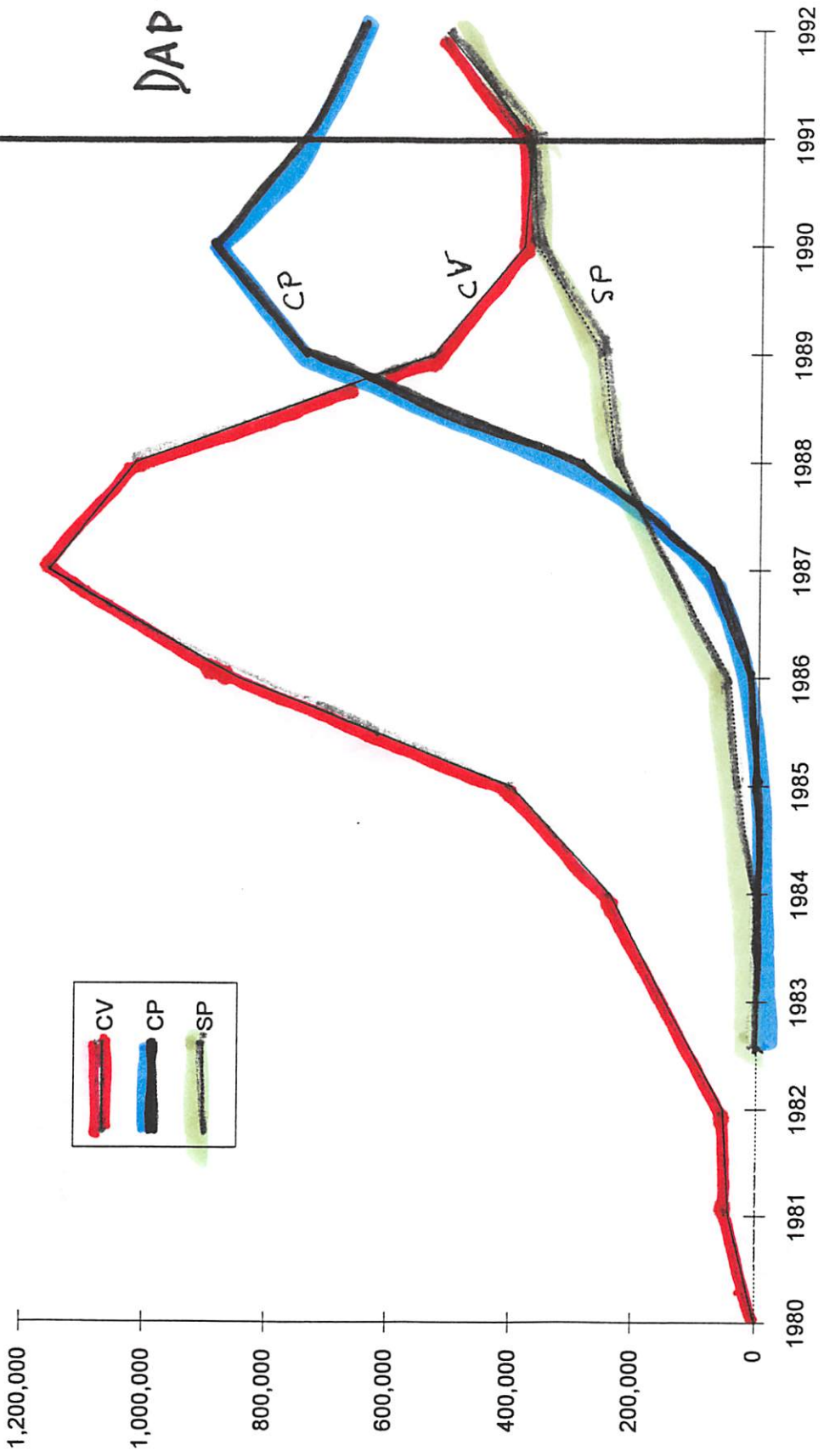
Thank you for your consideration of our views.

Sincerely,

ALASKA OCEAN SEAFOOD, L.P.

By

  
Jeff Hendricks





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## **MORE ON HARVEST PRIORITY**

### **Harvest Priority slows down the race for fish.**

Harvest priority helps alleviate the race for fish by providing an economic incentive for slower, more deliberate, and selective fishing. Fishermen will seek optimum conditions (weather, depth, temperature, location, biology, gear and other factors) based on their personal knowledge and experience in which to maximize their catch of target species while minimizing their catch of undesired species.

### **Harvest Priority works to rationalize the fisheries.**

Harvest priority incentives will encourage selective fishing on target species thereby reducing the need for increasingly complex management and enforcement schemes. Incentives that produce cleaner fisheries will help resolve ecological concerns (i.e. overfishing of certain species) as well as allocation conflicts between gear types and marine resource users.

Reduced bycatch and discard attained by harvest priority incentives works to:

- Decrease the economic and ecological loss and waste associated with the discarded targeted species.

- Reduces the unintended mortality thereby making more fish available to all fisheries.

- Conserve fisheries resources for future generations of fishers, the seafood industry, communities, consumers and the nation.

- Ensure a long-term stable fisheries-based economy and access to important marine resources in small coastal communities that depend on salmon, herring, crab, halibut, herring, and other species that are incidentally caught in offshore fisheries.

- Help alleviate conflicts between gear types. In some fisheries the discards alone would keep a competing gear type in business.

- Encourages the conversion to more selective fishing practices and technology.

- Decrease impacts on marine mammals and seabirds and their habitat including several species facing possible Endangered Species listings.

## **Harvest Priority works to assure the long-term health and productivity of fish stocks and other living marine resource of the North Pacific and Bering Sea Ecosystem**

Harvest priority is distinguished from all other strategies to minimize bycatch, waste and discard in acknowledging the role and intrinsic value that non-commercial and low value species play in the maintenance of the ecosystem. By providing fishermen incentives to fish deliberately and selectively for target species and minimize their catch of non-commercial and non-target marine life, harvest priority embraces the importance and ecological value of all marine resources including those that do not have meaningful management plans and of which very little is known.

Harvest priority also helps maintain the food budget needs for marine mammal and birds, including several species that are on the brink of making the Endangered Species list. Today, many species are discarded for economic reasons. Unfortunately, they are also critical elements in the food chain.

### **Harvest Priority increases vessel and crew safety.**

Bycatch of non-target species and prohibited species tend to be higher in rough weather. In order to keep their bycatch rates low vessels will avoid fishing as hard or altogether in bad weather.

### **Harvest Priority works in multispecies fisheries.**

The Council in consultation with the fishing industry and NMFS will define fisheries in which harvest priority economic incentives will be applied. Individual fishermen in conferring with their processors will have to define which species they wish to target to receive harvest priority allocations.

Harvest priority will be determined by the percentage of the total catch that is non-target species. The lower the non-target species catch, the more desirable.

In an agreed upon harvest priority fishery, all species that can't or won't sell (prohibited species, non-commercial species, economic discards, associated species that have reached their quota caps) will be counted against as bycatch. A minimum percentage of a fish must be used for human consumption otherwise it will be considered discard.

Associated target species will not be counted against your catch unless they exceed their quota caps or otherwise determined by the Council or NMFS.

Bycatch rates would be determined by counting all prohibited species catch (crab, halibut, etc.), non-commercial species and any associated target species that had reached their quota caps during the season (blackcod, turbot, rockfish) against the total catch. As the season progresses, several species such as cod or turbot will near their caps at which points they will become bycatch. Percentages will need to be adjusted accordingly.

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# Harvest Priority

## *Don't sweep it under the rug*

License limitation, ITQs or the status-quo madhouse. Those are the three options before the North Pacific Fishery Management Council as it moves ahead with "comprehensive rationalization" of the groundfish harvest off Alaska. That's the best nearly a decade of expert input and political horse-trading has been able to come up with. Or is it?

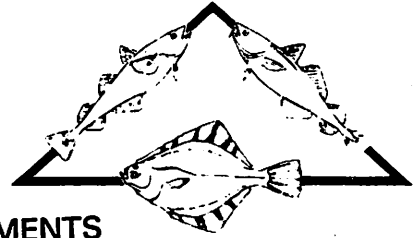
When the NPFMC met in Seattle in December, they were presented a sketch of a harvest priority system developed by the Alaska Marine Conservation Council. The plan proposes to withhold a percentage of the annual TAC from the open-access fishery and reward the additional quota to those harvesters who can meet or beat a negotiated bycatch standard. The set-aside could be increased over time, and the cleanest, most efficient fishermen within each gear group could gradually bid down the bycatch rate to distance themselves from the "dirtier" competition.

Instead of granting harvest shares to those who have historically boated the greatest catch—at whatever cost to the resource—the system would reward those who can adapt fishing savvy and modern technology to a more balanced ecological advantage. The statistical burden would shift away from an enforcement agency charged with proving fishermen wrong to a fleet of operators eager to prove themselves right. Observers might even be welcomed aboard.

Market forces would establish equilibrium. Ecological risk takers would have something to gain. The fair cost of bycatch could now be factored in, and the burden of excess would be born by the individuals who can't cut the mustard, not by entire fleets. Maybe it's just a pipe dream, but it's too beautiful to ignore.



*VJA*



ALASKA GROUND FISH DATA BANK COMMENTS  
ON GROUND FISH AND CRAB ITQ AND LIMITED ENTRY OPTIONS  
JANUARY 7, 1994

**COMPREHENSIVE RATIONALIZATION**

The general effort of the AGDB membership was to select options which would make the either the ITQ or Limited Entry program uncomplicated, reduce analysis time and also produce a program, whether ITQ or Limited Entry, which would do the best job of rationalizing the groundfish fisheries.

**INDIVIDUAL TRANSFERABLE QUOTA OPTIONS  
OPTIONS AGDB RECOMMENDS BE RETAINED FOR FURTHER ANALYSIS**

1. SPECIES: All species.
2. QUALIFICATION CRITERIA:
  - a. Both options "current owner as of June 24, 1992", and current owner as of date of final Council action" should be analyzed. AGDB members emphasize, however, that the June 24, 1992, cut off date for accruing ITQ's should be applicable under either option.
  - b. Recent participation requirement that a vessel must have fished the three year period prior to June 24, 1992.
  - c. An owner should still be eligible to receive ITQ's if his vessel was lost during the qualifying period under the same provisions contained in the moratorium language.
3. CDQ: CDQ's now in effect should be converted to ITQ's. The membership felt this option was consistent with the original intent of CDQ's to provide development opportunities and sunset when Inshore/Offshore sunset.
4. SEPARATE PROCESSOR QUOTA SHARE: The membership supports continued analysis of the proposed two pie system or other processing share ITQ program.
5. BASE YEARS: The membership felt the following options should be analyzed.
  - a. 1976 to June 24, 1992.
  - b. Weighting of DAP by both 2 and 3.5, JVP weighted by 1.
  - c. DAP only.
6. TRANSFERABILITY: The membership supports continued analysis of the following options:
  - a. Two year restriction on sales, but allow leasing.
  - b. No restrictions
  - c. Prohibit sales between catcher and catcher/processor vessels.
7. OWNERSHIP: An overage/underage program as in the sablefish/halibut ITQ program.



**QUESTIONS RAISED:**

1. **PROHIBITED SPECIES ITQ'S:** It is assumed that ITQ's for PSC's will be transferable just as retainable species ITQ's will be. It is also assumed that prohibited species ITQ's will be issued based on the average bycatch rate for each target species. Is this assumption correct?
  2. **RETAINED CATCH VS. TOTAL CATCH:** Will ITQ's be issued based on retained or total catch? AGDB feels retained catch, when available, should be the basis for issuing ITQ's.
- 

**ITQ OPTIONS WHICH AGDB RECOMMENDS BE ELIMINATED FROM FURTHER ANALYSIS:**

1. **SPECIES:** Delete pollock and cod only.
2. **QUALIFICATION CRITERIA:** Delete the recent participation requirement that a vessel fish for the the three years prior to Council action.
3. **CDQ:** Delete allocating CDQ's of each species.
4. **SKIPPER AND CREWMEN AND PLANT FOREMEN:** Delete this option.
5. **REQUIRE A PERCENTAGE OF IFQ'S TO BE DELIVERED SHORESIDE:** Delete this option as long as the the 2 pie option is retained.
6. **BASE YEARS:** Delete JVP years prior to 1986 and DAP years prior to 1989 weight by 2.
7. **TRANSFERABILITY:** Delete 15% of any sale subject to first right of refusal by bona fide crewman.
8. **OWNERSHIP:** Delete Must have IFQ's before fishing or must possess IFQ's to cover one month of fishing. Also delete ownership cap provision.

AGDB took no position on the following:

1. Issuance of harvesting ITQ's to processors.
2. Fixed precentage of Pacific cod ITQ's to fixed gear.
3. Issuance of ITQ for Gulf longline rockfish to owner and time of landings.

**COMMENTS ON SELECTED OPTIONS**

1. **SPECIES:** AGDB is opposed to the pollock and cod only option as the members feel it would merely exacerbate over capitalization in the other trawl fisheries.
2. **QUALIFICATION PERIOD:** AGDB feels that a current participation criteria is important to avoid diluting ITQ's by issuing them to vessels now fishing elsewhere. AGDB also feels that it is important that ITQ credits not be acrued after the Council June 24, 1992, control date. Using the three years prior to the control date as the recent participation requirement enforces the effectiveness of the control date.

It was the membership's intent that by fishing any species in Alaska, a vessel would have met the recent participation requirement and could receive ITQ's for all species for which the vessel had a catch history, regardless of whether or not the vessel fished those particular species during the recent participation requirement period.

3. **SKIPPER AND CREWMEN:** It should be noted that three skippers attended the AGDB member meeting to represent their vessels. All three concurred with eliminating the skipper and crewmen option. This option was seen as an

- unprecedented redistribution of fishing rights rather than a rationalization of the fisheries as well as an option which would require extensive analysis and prolong the time required before final decisions could be made.
4. **REQUIRE A PERCENTAGE OF IFQ'S TO BE DELIVERED SHORESIDE:** This option was felt to be unworkable by both vessels and processors. The two pie system or other processing ITQ was felt to be the essential option.
  5. **BASE YEARS:** There was strong feeling that the "date of final Council action" should be eliminated. This option would only create a new race for fish and further de-rationalize the fisheries.
  6. **TRANSFERABILITY:** There was strong feeling that the option to make adjustments to the program after implementation should be retained and that this flexibility could be maintained only if there were a two year moratorium on sales.
  7. **OWNERSHIP:** Requiring a vessel to have any amount of ITQ's before fishing was viewed as an enforcement problem and the membership felt an over or underage program would be more enforceable and effective. The membership also felt that the ownership cap would be no more enforceable than the U.S. ownership provision has been and therefore no time should be wasted on analyzation.

**OTHER COMMENTS:**

One member suggested that a portion of the processing ITQ for species which haven't been fully harvested such as flatfish be set aside for harvesters who wanted to develop their own markets. There was general opposition to this proposal summed up with the comment "Keep it simple, no processing ITQ's to harvesters."

LIMITED ENTRY

OPTIONS AGDB MEMBERS RECOMMEND BE RETAINED FOR FURTHER ANALYSIS

A. LICENSE:

- a. Separate Licenses for the Bering Sea and Gulf of Alaska. Species endorsements which mirror the species for which the State of Alaska issues interim use permits. For example, there is one interim use permit for all trawl species.
- b. Separate Licenses for under 60-feet, 60-125-feet and over 125-foot vessels to mitigate the inevitable increase in capacity which occurs under a license limitation program. Vessels would have the same option to expand for safety reasons that is contained in the moratorium language.

B. RECIPIENTS: Vessel owners.

C. TRANSFERS: Only to Persons. License may be transferred without vessel. (Delete options capping the number of licenses a Person may hold; delete requirement that vessel be transferred with the license).

D. BUYBACK PROGRAM: No one knew of a successful buyback program, but felt the analysts should be allowed to do their best to design one.

ROSS ANDERSON / Times editorial columnist

# Legacy of the fish council: 500,000,000 lbs. of waste



JUDGING by the strain on his hydraulic winches, the skipper believed he had netted 20,000 pounds of fish, worth thousands of dollars. As his mammoth net reached the wind-frothed surface of the Bering Sea, the fisherman

scrambled down to the deck to inspect his catch.

A 10-ton catch is an amazing sight — thousands of silvery, quivering fish crammed into a net 30 feet long and perhaps 15 feet across, like an enormous, quilted whale.

The skipper, however, took one look, shook his head and instructed the crew: "Jump it!" In a few minutes, 10 tons of fresh seafood became 10 tons of biodegradable garbage.

Why? "That net's full of pollock," he said. "We're rigged to process rock sole."

This was no isolated mistake. During my week on board that factory ship, I saw more fish dumped than kept, callous waste measured by the ton, if it was measured at all.

Seattle's high-tech fishing fleet — large boats and small, in-shore and offshore — is both an international model, and a national disgrace.

Last year alone, fishermen in the Bering Sea and Gulf of Alaska dumped more than 500 million pounds of fish. That's more than was caught by all U.S. fishermen in the troubled North Atlantic. It is enough to feed 250 million Americans a healthy seafood dinner.

For years, fishermen have shrugged off these statistics as an unfortunate cost of doing business.

Their business. Our cost.

There is an element of waste to any business. Farmers occasionally plow crops into the ground to avoid glutting their markets. Loggers have been criticized for leaving trees too small to mill.

But much of that 500 million pounds of waste is avoidable. Fishermen select gear and methods that are prone to catching the wrong species. Of 114 million pounds of fish caught in the rock sole fishery last year, 70 million pounds were discarded — a staggering 61 percent of the total. Some accident.

This is complicated by the way government chooses to regulate the fisheries. Trawl fishermen are *required* to discard halibut, salmon and crab — mostly to protect the interests of competing longliners or other traditional fishermen. In 1992, this accounted for discarding 20 million pounds of halibut and 20 million crab — dead or alive.

The American fishing industry remains a curious museum piece, a lingering case study of backward management and irrational economics. To insiders, it is complex; to outsiders, it is insane. They're both right.

Other public resources, such as oil or timber, are subject to market forces. The government allocates the resource by selling it to the highest bidder, who presumably will harvest it in the most efficient manner possible.

Fish, however, remains an open-access resource, free for the taking. This is defended as sound social policy. In fact, it's a throwback to 19th century colonial economics. "This entire business operates under a charter granted by Queen Elizabeth," says one businessman-observer.

When a resource is both free and valuable, there are bound to be too many takers. The American buffalo was an open-access

til hunters got carried away.

The North Pacific Fishery Management Council, the federal panel that is supposed to manage this problem, instead has ignored it. They dabble in the politics of who-gets-what while the overall fleet continues to breed a new generation of buffalo hunters.

To prevent over-fishing, the council has shortened fishing seasons. But time is money, so fishermen process only their highest-value catch, dumping the lower-value stuff so they can clear the decks and try again for the big money. The result is 500 million pounds of chaos, a mad derby that encourages waste.

Naturally, all this shortsightedness costs us taxpayers millions of dollars for fisheries research, regulation, enforcement and mismanagement.

We're even paying the hotel and bar bills this week as the fishery council meets in downtown Seattle. Finally, the situation has deteriorated to the point that even the fishery council is under some pressure to respond.

They have talked about new rules, requiring fishermen to process everything they catch. They have talked about a new quota system, which would hand over ownership of the resource to fishermen, based on their historical catch. Look for another two-year study in the near future.

There is a simpler and quicker solution to all this: Stop giving the resource away. Divide the fishery into shares, and auction it off.

Human ingenuity is rooted in profits. If fishermen actually paid for what they catch, they would magically discover new, efficient ways of targeting rock sole without scooping up pollock. They would develop more efficient boats and fleets, capable of processing both species at once. If waste costs money, there will be less waste.

But free-market solutions are not on the fisheries agenda. The federal fish czars won't even study the idea of asking fishermen to pay their own way.

And why should they? So far, taxpayers have been willing to subsidize a bankrupt and wasteful status quo.

Ross Anderson's column appears Friday on editorial pages of *The Times*.

## PACIFIC COAST WATCH

### Council should consider quota action

By Brad Matsen  
Pacific Editor

In December, the North Pacific Fishery Management Council met in Seattle for the first time in its 16-year history. Until the last reauthorization of the Magnuson Act in 1990, the council was prohibited from holding its plenary sessions anywhere but within Alaska, a bitter pill for Seattle's distant-water fleets. Now, however, at least one of the council's five or six meetings each year will be held in either Oregon or Washington.

The same week the council was meeting, veteran *Seattle Times* fisheries writer Ross Anderson wrote a column headlined, "Legacy of the fish council: 500,000,000 lbs. of waste." In it, he criticized open access to the fisheries, a management system that requires discards of bycatch and the North Pacific Council in general. He called for an auction of the resource and submission to the dynamics of the open market as a solution.

Meanwhile, over in Ballard, council Chairman Rick Lauber gave the keynote speech at the Norwegian Commercial Club's Fishermen's Night gala. Lauber shared the bill with a vigorous cocktail hour, a great salmon dinner, a facile master of ceremonies and a pair of old-country comedians, Uncle Torvald and his straightman.

Lauber was anything but funny, though, as he related the travails of managing fisheries with wide-open competition on the grounds and battalions of lawyers and lobbyists on the beach. The problem is, he said, that the various gear groups, investors and regional factions hamper rationalization of the fisheries or the councils that manage them. Waste is all but guaranteed under an open-access system with compressed seasons that don't give fishermen the time to select grounds and methods that reduce bycatch and discards. Now, we're in irons with bycatch caps shutting down most fisheries before their quotas are taken, and a half-billion pounds of discards showing up in newspaper headlines that are sure to awaken the American public.

But because the councils and participants in the fisheries didn't seize the opportunity to do some much needed social engineering 15 years ago, vesting access to the resource has become impossibly complicated. Everybody who owns, runs or works on a fishing boat claims an entitlement, and nobody wants to compromise on the biggest issue of them all, ownership of the resource in perpetuity.

Current proposals for awarding quota shares in the groundfish and crab fleets seem like longshots at best. The council's first attempt to impose a quota-share system in the smaller, less complicated halibut and blackcod fisheries took nine years. That system finally cleared all administrative hurdles and is set for imposition in 1995, but what will likely be a protracted legal blizzard started the week the council met in Seattle, when opponents filed their first lawsuit.

Maybe Ross Anderson is right. A quota auction might be the only way to go if we want to rationalize the fisheries of the North Pacific in this century.



EDITORIAL

## Harvest Priority

*Don't sweep it under the rug*

License limitation, ITQs or the status-quo madhouse. Those are the three options before the North Pacific Fishery Management Council as it moves ahead with "comprehensive rationalization" of the groundfish harvest off Alaska. That's the best nearly a decade of expert input and political horse-trading has been able to come up with. Or is it?

When the NPFMC met in Seattle in December, they were presented a sketch of a harvest priority system developed by the Alaska Marine Conservation Council. The plan proposes to withhold a percentage of the annual TAC from the open-access fishery and reward the additional quota to those harvesters who can meet or beat a negotiated bycatch standard. The set-aside could be increased over time, and the cleanest, most efficient fishermen within each gear group could gradually bid down the bycatch rate to distance themselves from the "dirtier" competition.

Instead of granting harvest shares to those who have historically boated the greatest catch—at whatever cost to the resource—the system would reward those who can adapt fishing savvy and modern technology to a more balanced ecological advantage. The statistical burden would shift away from an enforcement agency charged with proving fishermen wrong to a fleet of operators eager to prove themselves right. Observers might even be welcomed aboard.

Market forces would establish equilibrium. Ecological risk takers would have something to gain. The fair cost of bycatch could now be factored in, and the burden of excess would be born by the individuals who can't cut the mustard, not by entire fleets. Maybe it's just a pipe dream, but it's too beautiful to ignore.



VotA

# GREENPEACE

Greenpeace • 4649 Sunnyside Ave N • Seattle WA 98103 • Tel (206) 632-4326  
• Fax (206) 632-6122 •

January 11, 1994

Richard Lauber, Chairman  
North Pacific Fishery Management Council  
P.O. Box 103136  
Anchorage, AK 99510

Mr. Chairman and members of the Council:

On behalf of Greenpeace and its 1.8 million supporters here in the United States, I would like to address our concerns with the Comprehensive Rationalization Plan (CRP) process that you are currently undertaking.

In our view, there are numerous threats facing our fisheries today. Our fisheries suffer from a variety of problems ranging from loss of habitat to over-use. The National Marine Fisheries Service (NMFS) reports that 65 (or 42%) of the 153 known fish stocks are overexploited.

The current situation in the North Pacific was predicted years ago. At the time of the implementation of the Magnuson Fishery Conservation and Management Act, the status of fisheries in the United States warranted protection and prudent conservation and management. Yet, in the fast-paced efforts to develop a domestic fishery, policies were developed that focused on economic development and improvement. Conservation was put to the wayside as incentive programs were developed, in the shape of low interest loans and preferential allocations, to encourage U.S. participation in the fisheries. To date, little has been done to improve the way in which fisheries are prosecuted. We now have too many vessels chasing a finite and, in many cases a decreasing, amount of fish. Increasingly, fisheries managers are burdened with balancing the concerns of numerous user groups competing in the ocean commons. However, managers must also include the needs of non-users who do have a hold in this common property.

It is your responsibility to weigh all concerns, including social and ecological, when addressing this task. "Rationalizing" the fishery cannot be accomplished under one management tool. The problem statement that the Council has outlined for CRP lists a

series of problems in the North Pacific. Many of these problems may be in fact due to the inability to control effort and capacity in the fishery, but the real issue is what tools to use in order to conserve and manage the resource. This should be paramount to any plan that you put forward in your deliberations.

#### CHANGING THE STATUS QUO

Greenpeace is aware that open access fisheries are difficult to manage. As vessels continue to enter a given fishery, seasons become shorter, total allowable catches (TACs) can be exceeded, and inevitably more harm is caused to the resource. Clearly, some type of limited entry program must be implemented.

In our view, the amount of vessels must be controlled first. The vessel moratorium that has yet to be implemented is a step in the right direction. Afterwards, and in addition to, some type of license limitation plan should be adopted. These tools will at least limit entry into the fisheries. In the meanwhile, tools must be analyzed that will address conservation and management concerns of the public. As mentioned by numerous persons who are concerned with the issue of bycatch and subsequent discards, the waste in our fisheries is unconscionable. The Council must proactively focus on these concerns understanding that irresponsible use of a common property resource will no longer be tolerated by all concerned.

When the advisory panel deliberated on this issue, there was overwhelming agreement that currently the fisheries in the North Pacific are not being conserved and managed properly and that an attempt needs to be made to clean up our fisheries. Further, the AP recommended that more alternatives and options be included into the CRP process to address positive incentives to rationalize the fisheries. For example, both the harvest priority plan, which would set up a fishermen initiated reward system in prosecuting fisheries and the examination of full retention and full utilization of all fishery removals to determine bycatch levels, were suggested to be analyzed. These may prove as valuable tools in reducing bycatch and waste and should be analyzed for this purpose.

#### RECOMMENDATIONS

We advise the Council to move forward in addressing the CRP by consulting some suggestions as put forward by NMFS. For example, in the 1991 Strategic Plan for the Conservation and Wise Use of America's Living Marine Resources, NMFS attempts to make a fundamental departure from the approaches of the past and acknowledges that the concept of "wise-use" encompasses the



ecosystem as a whole. In particular, it calls for:

1. Controlled access to fisheries to reduce the tendency toward excess fishing capacity, economic waste, conflicts between groups, and industry pressure to make "risk prone" decisions;
2. Development of more selective fishing practices to reduce bycatch;
3. Implementation of a cohesive strategy, built on all applicable legislative authorities, to protect and restore marine ecosystems;
4. Reduction of uncertainty by greatly expanding the scientific information base upon which decisions are based;
5. Risk averse decisions in the face of uncertainty (i.e., erring on the side of conservation, not resource depletion).

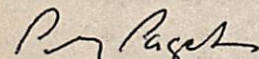
Obviously missing from this list is the consideration of biological interactions. There is a pressing need to manage marine exploited species in the context of the ecosystems to which they are a part, both to achieve sustained use of living marine resources and to protect non-exploited species and the integrity of their interactions.

Additionally, in following objectives for developing fisheries management regimes, the Council should bear in mind that it will be necessary in some cases to relegate immediate economic objectives to a subordinate position and to use the criteria of cost-effectiveness instead of criteria of maximization of net benefits (e.g., cost benefit analysis) to evaluate management options. High discount rates that are commonly employed in fisheries cost-benefit analyses fail to consider the interests of future generations, and thus do not promote sustainability of resource use.

#### CONCLUSION

In closing, I would ask that the Council address the problem statement for achieving its comprehensive goals. In assuring the long-term health and integrity of the Northeastern Pacific ecosystems you will support the needs of both users and non-users of this common property resource.

Thank You



Penny Pagels  
Northwest Fisheries Campaigner

REGARDING LOCAL ROCKFISH FISHERY

We the undersigned, concerned individuals from Southeast Alaska, believe that the Directed Longline DSR Rockfish fishery should not be included in the Comprehensive Rationalization program (Individual Fish Quotas) because of the following:

1. Problems identified as reasons for comprehensive rationalization do not apply to the directed longline DSR fishery.
2. The State of Alaska is adequately managing this fishery.
3. The existing management includes:
  - a. Trip limits (each boat can only have a specified amount in a given 5 day period-amount depends on area being fished) for different areas.
  - b. Trimester apportionment (Annual total allowable catch is divided throughout the year)
  - c. Cap (limit) on incidental catch of DST in other target fisheries.
  - d. Mandatory logbooks providing species statistics.
  - e. "Hot Spot" authority. (Ability to close specific areas where effort is greatest)
4. Fresh, high quality product is being provided to the consumer.
5. This fishery is important to the local economy and benefits the small boat owner-operator.
6. This is a clean fishery with a low rate of bycatch mortality.

<i>Don Wells</i>	1310 B Sawmill Ck	947-3686
<i>Grene L. Brower</i>	1310 B Sawmill Ck	747-6876
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<i>Jay Skordahl</i>	PO Box 2826 SITKA AK	7-6024
<i>DANIEL W. THOMAS</i>	420 LAKE ST. Box 755 Sitka	
<i>Bob [unclear]</i>	1713 Edgemoor Dr. Sitka, AK	7-3993
<i>Clarence B. Dull</i>	112 Ocean View ST Sitka	
<i>Daniel [unclear]</i>	2716 HPR # 341 Sitka AK.	
<i>Wade P. Marten</i>	PO BOX 6345 SITKA, AK	
<i>Harry W. Bradley</i>	PO BOX 1043 Sitka, AK	99835
<i>David [unclear]</i>	420 KATHIAN ST Sitka AK	99835
<i>George H. [unclear]</i>	P.O. BOX 493 SITKA	99835
<i>John B. Margul</i>	227 Lakeview Dr. Sitka AK	99835
<i>Van [unclear]</i>	Box 6083 SITKA AK	99835
<i>Dick [unclear]</i>	PO BOX 6345 SITKA, AK	99835

Next page please

REGARDING LOCAL ROCKFISH FISHERY

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Charles K. Thompson PB 6269 SITKA AK 99835

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~~Mike~~ The Station 231 KATLIAN ST. 3-16 SITKA, AK 99835

Dave Ray 4792 H.P.R.#c Sitka AK 99835

Detroy Kurbay 2039 HPR Sitka AK 99835

~~Robert Kurbay~~ 2039 HPR Sitka AK 99835

Charlie A. Bower III P.O. 6407 SITKA AK 99835

Eric S. Admiza 236 Observatory Sitka AK 99835

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*Sam Hyde*

Box 6444 SITKA

*RW Hunter*

Box 6346 "

Handwritten notes

Faint handwritten notes, possibly including "1971" and "1972".

Faint handwritten notes, possibly including "1973" and "1974".

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Norman Robert Guthrie jr	NR Guthrie	Gen Del Reg. Alaska 94835
Sigurd D. Rutter	Sigurd D. Rutter	G17 Matliar, E-10
Eric Morisky	Eric J. Morisky	147 R Price Ct. SITKA AK
Mark Sawyer	MARK Sawyer	P.O. 6512 SITKA
Dy Cushing	Greg Cushing	407 Hemlock Sitka
Pete Roddy	PETER RODDY	Box 6436 SITKA
Hugh B Burton	H L B Burt	SITKA, AK
Betsy Knutson	Betsy Knutson	2039 HPR
Gilbert Knutson	Gilbert Knutson	2039 H.P.R.
Gerald P. [unclear]	FU SANDRA	LINN
John R. Duffin	Tom Ujer	231 Matliar M-23 SITKA AK 99839
Don Allen	Paul Johnson	Box 1083 Sitka
Paul Johnson	MARK THOMPSON	Hilo Hawaii
Mark Thompson	Danny Whitson	Box 1018 Sitka
Danny Whitson		

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R.W. Crampton Box 4346 Sitka 99835 F/V Betty  
 Matt Donohue Box 2993 Sitka 99835 F/V Ketai/A  
 Steve Pitt Box 6448 SITKA F/V Kariel  
 Don Don Box 2473 Sitka 99835 F/V Donita M  
 Deane Whitson Box 1456 Sitka 99835 F/V Charisma  
 Nancy Whitson Box 1018 Sitka 99835 F/V Ruthie J  
 Charles Carlson Box 903 Sitka 99835 F/V Verne  
 J. Donohue 1713 Edgemoor Dr. Sitka 99835 F/V STORE FRONT

Mo

+ @SPC 4 (Noël-claire-  
Kevin Koelling  
Grant Miller)

+ Hughie Blatec BOX 6336 SITKA



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A. K. Martin MV MISS MUSKEG

A. K. Martin 64816 203 AIRPORT RD SLIP D26

A. K. Martin G. Cornwell HELLM

Wayne A. Johnson BX 2608 SITKA, AK 99835

Kelly L. Wainwright Box 6467 SITKA AK 99835

Laura Bower ANKA BOWER P.O. 6407 Sitka



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*Alan Blum*

*Hughie Blake* Box 6336 Sitka

*Jim Phillips*

*Jim Phillips* Box 92, Sitka

*John Godfrey*

*John Godfrey* Box 22979 Juneau

*Mark Rawley*

*MARK RAWLEY* Box 4572 Sitka

*Les Woodard*

*Les Woodard* Box 2905 Sitka

*Mike McVey*

*Mike McVey* Box 6467 SITKA

*Gary Lang*

*GARY LANG* Box 2193 SIT

*M. Knauss*

*M. KNAUSS* Box 211 Sitka AK

DAN F. ALVEY

Sponsor: Administrator

**RESOLUTION 94-564**

**A RESOLUTION OF THE CITY AND BOROUGH OF SITKA REQUESTING THE  
NORTH PACIFIC FISHERY MANAGEMENT COUNCIL TO REMOVE THE  
DIRECTED LONGLINE DSR FISHERY FROM THE COMPREHENSIVE  
RATIONALIZATION PLAN**

**WHEREAS**, the North Pacific Fisheries Management Council is considering Demersal shelf rockfish (DSR) in the Comprehensive Rationalization program for the Gulf of Alaska Groundfish; and

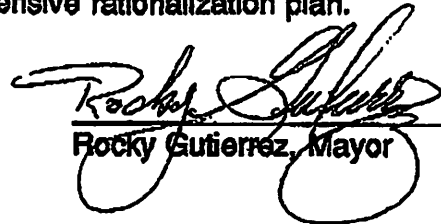
**WHEREAS**, the traditional directed longline demersal shelf rockfish fishery in the Southeast Outside area is:

1. A rational, non-derby fishery managed by the State of Alaska with trip limits and seasonal apportionments;
2. Producing a high quality product for U.S. consumers;
3. A clean fishery with low bycatch mortality;

**WHEREAS**, this fishery is a local small boat fishery important to the Sitka's economy; and

**WHEREAS**, the problem statement calling for comprehensive rationalization of other groundfish and crab species does not apply to the directed longline DSR fishery.

**NOW, THEREFORE, BE IT RESOLVED** that the Assembly of the City and Borough of Sitka requests that the North Pacific Fishery Management Council remove the directed longline DSR fishery from the comprehensive rationalization plan.

  
Rocky Gutierrez, Mayor

ATTEST:

  
Colleen Pellett  
Municipal Clerk

CARRIED @ JANUARY 11, 1994 REGULAR ASSEMBLY  
MTR

January 12, 1994

Richard B. Lauber, Chairman  
North Pacific Fishery Management Council  
Post Office Box 103136  
Anchorage, Alaska 99510

Dear Mr. Lauber:

We are writing to express our strong opposition to a startling ITQ proposal which we understand has very recently been proposed to the North Pacific Council. This proposal would effectively prevent the foreclosure sale of any fishing industry vessel if the proceeds were insufficient to satisfy the claims of each and every creditor. This would bring marine financing to an utter standstill helping no one and hurting lenders, creditors and vessel owners alike.

Everyone who extends credit to a vessel, whether based on the security of a preferred mortgage or on the establishment of a maritime lien, is (or should be) well aware of the statutory priorities that have remained essentially unchanged since enactment of the Ship Mortgage Act in 1920. Preferred ship mortgages are a matter of public record and clearly have priority over subsequent maritime liens for necessities as well as other non-maritime liens.

In good times these priorities are largely of academic interest since owners pay their trade debts and keep current on their mortgage payments. But in bad times they have proven necessary to determine who gets a piece of the pie when there is not enough to go around. No one laments the recent downturn in the fishing industry more than the landing community. Dropping prices, declining demand, resource limitations and reallocations have all placed enormous stress on the fishing industry and have hurt almost everyone. The plight of the industry is well known and has been widely chronicled in the regional and even national press.

Richard B. Lauber  
January 12, 1994  
Page 2

We support any effort to ensure that the value of quota shares be made available to the vessel's creditors, be they the suppliers of diesel fuel that enable the vessel to operate or the suppliers of the capital that enabled her to be built in the first place. In particular, like the trade creditors, we also support the Council's proposal to award the quota share to the vessel's "current owner" (on the date of plan implementation and not retroactively). What we can not support, however, is a proposal that completely upsets the long-established system of lien priorities on which the entire marine financing community has relied for nearly 75 years.

And that is exactly what this recent proposal would do. It would require a fishing vessel to lose its prior harvesting or processing history if trade creditors have their debts extinguished through a discharge in bankruptcy or their maritime liens against the vessel extinguished through a marshal's sale. Read literally this appears to suggest that in order to preserve the vessel's historical quota share trade creditors must recover 100 cents on the dollar, while preferred mortgagees and others must take a discount if they get paid at all. This result would literally reverse the established statutory priorities of trade creditors and preferred lenders.

If, on the other hand, what is being suggested is that all creditors, be they preferred mortgagees, maritime lien holders or unsecured trade creditors, recover 100 cents on the dollar before a vessel can enjoy its historical quota share, then for all practical purposes the price would be so unrealistically high, that the vessel would simply not be sold. Presumably the vessel would only sell for its scrap value (reflecting the loss of quota share) in which case everyone, including the trade creditors, would lose.

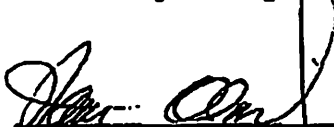
Either result would make a mockery of the statutory system of maritime lien priorities. Congress established these defined priorities precisely because they knew in foreclosure situations there would not be enough money to pay everyone.

Creditors have always extended credit to vessels with full knowledge of the priorities and the attendant risks. The system allows them to know where they stand in advance so that they can make a reasonably intelligent assessment of the risks before extending credit to the vessel. For these trade creditors to now ask for a complete eradication of traditional maritime lien priorities, simply because they assumed that the continued operation of vessels meant that revenues were being used to pay down the mortgage and that there was therefore some equity in the vessel is nothing less than incredible given the obvious and highly publicized condition of the industry.

We also believe that fishing vessel owners themselves will be amazed to learn that under this proposal they will effectively be deprived of the protections of the bankruptcy laws. Where trade creditors and banks are required to get 100 cents on the dollar in order to preserve the vessel's quota shares there can be no "restructurings" and fishermen will lose the benefits of Chapter XI reorganization that are available to all other businesses.


In making their proposal, these trade creditors have laid blame for their current difficulties on secured lenders in general, and foreign lenders in particular. We note, however, that the proposal itself applies equally to domestic as well as foreign mortgagees. And while we have no particular fondness for our foreign competitors, it is relevant to remember that as recently as 1988 Congress expressly encouraged these foreign lenders to participate in this industry by removing all citizenship limitations for mortgagees of fishing industry vessels.

As creditors, we too share the concerns of the proposal's proponents that vessel assets retain value and that those who have extended credit to the fishing industry not be left holding the bag. But there is no surer way to achieve that very outcome than to separate vessels from their historical quota shares in the manner suggested above. If this proposal were adopted no rational person would lend to the fishing industry. We know that it is bad policy and we strongly question whether the Council even has the legal authority to adopt such a scheme. Unfortunately, even if it is included as a serious proposal for further consideration it will have a chilling effect on marine financing. Accordingly, we strongly urge the Council not to include this proposal in the Comprehensive Rationalization Planning analysis currently under consideration.

  
Sr. V.P.  
National Bank of Alaska  
James Conner

  
VP  
Key Bank of Washington

  
Alaska Commercial Fishing and  
Agriculture Bank (CFAB)

  
SeaFirst Bank

  
Farm Credit Services

**FISHERMEN AND ENVIRONMENTALISTS** followed signs of ecological trouble in the Gulf of Alaska and Bering Sea. An October report suggested bottom trawlers discarded a half-billion pounds of unwanted fish off Alaska in 1992. Those figures, compiled by consultant Larry Cotter, didn't include 20 million pounds of halibut, 1 million pounds of herring, more than 100,000 salmon and more than 20 million crab caught by fishermen targeting other species and thrown back into the ocean. Some observers linked seabird die-offs, declines of seals and sea lions and peculiar behavior of killer whales of to the collapse of the food chain.

PAGE 7B

## commercial fishing

At the same time, the Magnuson Act, which governs fisheries in the U.S. 200-mile Exclusive Economic Zone, along with the Endangered Species Act and the Marine Mammals Act are up for renewal in Congress.

Commercial sport and subsistence fishermen, conservationists and other concerned citizens united to form the Alaska Marine Conservation Council. A main goal is to foster ecosystem-based management of marine resources rather than the piecemeal approach often seen today.

The council proposes an incentive program that would reward commercial fishermen — for example with extra fishing time — for avoiding the accidental take of nontarget species. That would work better than penalties for dirty fishing, which they say have been difficult to enforce in court.

**U.S. SECRETARY OF COMMERCE** Malcomb Brown approved plans in January to privatize Alaska's halibut and blackcod fisheries by giving fishermen transferable shares, known as IFOs, in the annual fishing quotas. Publication of final rules in the Federal Register last month made the plan law.

Drew Scalzi, president of the Homer-based North Pacific Fisheries Association, a long-time proponent of IFOs and a member of an industry group advising federal managers how to implement them, said fishermen should concentrate now on making IFOs into the best program possible. Others said the plan was unenforceable.

Proponents expect IFOs to end short openings that lead to problems with safety, fish quality and prices. Fishermen will be able to work when conditions and markets are best. Critics say the plan will wreak economic havoc in coastal Alaska communities.

"If this plan works the way they want it to, there will be 12,000 crewmen out of jobs. There will be less than 300 boats left from a fleet of about 4,000," said Seldovia's Jere Murray. Murray and members of the Alliance Against IFOs went to court this month to block the plans.

LIMITED ENTRY

## AWATCH

### THE ALASKA COMMERCIAL FISHERIES

Entry Commission approved limited entry for Kachemak Bay Dungeness crab fishermen in May. The fishery, which was once worth \$1 million a year to the Homer fleet, has been closed for several years because of a scarcity of crab.

Commissioners expected permits to go to 103 pot fishermen and two long-net fishermen who fished between 1988 and 1992. That was twice the number of permits recommended by Carl Rosier, commissioner of the Department of Fish and Game.

State biologists said limited entry will have little effect on management. They have asked the Board of Fisheries for smaller pot limits, shorter seasons and sanctuaries inside Kachemak Bay closed to fishing. Those proposals are slated to come before the board in March.

BASED ON ECONOMICS AT THE COST OF PEOPLE

Fisheries should not be restricted at the elimination of jobs by the government

A. But by gear restriction  
B. AND QUOTAS

C. which are on a Biological + social + economic reasoning

RECOMMEND PERMITS

CARL ROSIER

Pot Limits, shorter seasons, sanctuaries...



# STATE OF ALASKA

## DEPARTMENT OF FISH AND GAME

WALTER J. HICKEL, GOVERNOR

3298 DOUGLAS STREET  
HOMER, ALASKA 99603-7942

January 3, 1994

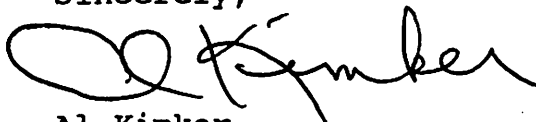
David Hillstrand  
Box 1500  
Homer, AK 99603

Dear Sir:

This letter is in response to your inquiry regarding the value of limited entry to shellfish fisheries management. Limited entry is only of value when it effectively limits the actual fishing effort therefore allowing it to be a management tool. "Effectively" is the key word. For example, in the Cook Inlet Commercial Dungeness Crab Fishery the limited entry program set the number of permits at 103. This level will not restrict effort sufficiently to slow the pace of the fishery thereby allowing for timely in-season management.

If you have any further questions, please call. Thank you for your interest.

Sincerely,



Al Kimker  
Regional Shellfish Biologist  
Cook Inlet/Prince William Sound

**RECONSIDERING EQUITY AND EFFICIENCY  
IMPLICATIONS OF INDIVIDUAL TRANSFERABLE QUOTAS  
(ITQs) IN NORTH PACIFIC FISHERIES**

**Scott C. Matulich**  
Professor, Agricultural Economics  
Washington State University

November 1993

This paper was prepared for the North Pacific Fisheries Management Council. It revises an earlier draft, "Rationalizing Comprehensive Rationalization: Reconsidering Efficiency and Equity Implications of Individual Transferable Quotas (ITQ) in North Pacific Fisheries," submitted in June 1993. This revision has benefitted from the input of many individuals that reviewed the prior draft. However, special thanks are owed to Ron Mittelhammer, Phil Wandschneider and Bill Workman for their helpful suggestions. The author accepts all responsibility for errors or omissions.

# **EXECUTIVE SUMMARY**

## **RECONSIDERING EQUITY AND EFFICIENCY IMPLICATIONS OF INDIVIDUAL TRANSFERRABLE QUOTAS (ITQS) IN NORTH PACIFIC FISHERIES**

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The revised paper "Reconsidering Equity and Efficiency Implications of Individual Transferrable Quotas (ITQs) in North Pacific Fisheries" has a central message. The Council confronts an inescapable distributional consideration as it searches for a suitable ITQ design. Two sectors intervene between the fishery resource and the consumer--catchers and processors. Any asymmetric or unbalanced initial allocation, one that recognizes only one of these two sectors, will redistribute wealth and property. In particular, a harvester-only initial allocation will redistribute the wealth of shore-based processors, motherships and floating processors to the catching sector. These uncompensated losses virtually guarantee political gridlock and unnecessarily jeopardize adoption of an ITQ plan. It should be recognized that a decision to disenfranchise processors also has serious regional and Alaska coastal community impacts beyond the industry, per se.

Three alternative symmetric initial allocations that are distributionally neutral are proposed: (1) a 2-pie initial allocation of separate catching and processing rights; (2) a full utilization quota share system in which catching and processing rights are bundled together and allocated to both sectors; and (3) an allocation of only catching rights to both sectors. The policy objective of each of these three alternatives is to initiate quota share trading while making no current participant in either sector worse off. Any of these allocation schemes could permit movement to an ITQ system without distributional effects and associated political fallout.

The second part of the paper raises potential efficiency issues that might arise as a consequence of an asymmetric, harvester-only initial allocation. For example, a harvester-only initial allocation effectively shrinks the market for quota shares, risking loss of a potentially efficient participant--the processor. The paper concludes, however, that the Council need not concern itself with such efficiency matters if they adopt a symmetrical initial allocation. A symmetrical allocation guarantees a level of efficiency at least as good as *any* other initial allocation, plus it guarantees that neither the catchers, catcher-processors nor processors can suffer uncompensated losses.

# RECONSIDERING EQUITY AND EFFICIENCY IMPLICATIONS OF INDIVIDUAL TRANSFERABLE QUOTAS (ITQs) IN NORTH PACIFIC FISHERIES

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## I. INTRODUCTION

The central policy question before the North Pacific Fisheries Management Council (the Council) is whether groundfish and crab management should shift from a total allowable catch (TAC)-managed open access property rights structure to a private property management regime involving individual transferable quotas (ITQs). Two fundamental and related policy questions are pivotal to the Council's deliberations.

1. What are the distributional consequences of alternative ITQ policies?
2. How would a shift from TAC-managed open access to an ITQ system affect economic efficiency?

This paper provides a preliminary inquiry into these two related questions.

Distributional consequences of ITQ policies are discussed first. It is argued that policy implementation through a traditional harvester-only initial allocation is unjust, unwise and unnecessary. It jeopardizes adoption of an ITQ policy. A Pareto-safe initial allocation, one that reflects the current or recent historical distribution of both catching and processing rights in prior use, is suggested because it guarantees a level of efficiency that is at least as good as with *any* other initial allocation. However, unlike a harvester-only initial allocation, Pareto safety also guarantees that no party can suffer uncompensated losses.

The third and fourth sections examine efficiency considerations under a traditional harvester-only initial allocation. The third section establishes the appropriate efficiency measure

consistent with the Magnuson Fishery Conservation and Management Act (U.S.C.A. 16 §1801 et seq.). The distributional implications of a harvester-only initial allocation discussed in Section II are clearly demonstrated. Sources of potential inefficiencies that stem from a harvester-only allocation are presented in Section IV.

A simple solution that simultaneously assures efficiency and distributional equity is provided in Section V. The main conclusions of this paper are summarized in the final section.

## II. DISTRIBUTIONAL CONSEQUENCE OF THE INITIAL ALLOCATION

Conventional economic wisdom holds rights-based, ITQ fisheries management as *prima facie* efficient in contrast to open access fisheries management. Wasteful common pool losses can always be eliminated by assigning property rights over the open access fish stock (Libecap, 1988; Huppert, 1988; Anderson, 1986; Copes, 1986; Moloney and Pearse, 1979). This conviction stems from the seminal article by Gordon (1954), though, as Scott (1988) points out, the roots of rights-based fishing can be traced to the Middle Ages.

A substantial theoretical literature concerning ITQs developed over the past several decades. This literature employs standard theorems of welfare economics to show that endowing individual harvesters with fully transferable, permanent and exclusive fishing rights is tantamount to assigning property rights over the fish stock. This provides incentives for efficient resource usage, thereby eliminating the perennial overcapitalization problem in the harvesting sector. The potential benefits from privatizing open access fisheries derive primarily from eliminating stock externalities. A secondary benefit arises out of gains from free trade, in which more efficient users of the resource are able to purchase rights from less efficient users.

Without exception, the literature is premised on the tacit assumption that only a single sector intervenes between the fish population and the consumers--the harvesters. This assumption is false for most fisheries; the processing sector typically is as crucial to the utilization of fishery resources as is the harvesting sector.<sup>1</sup> Nevertheless, consideration of the processing sector is conspicuously absent from the rights-based fishing literature and from existing ITQ programs worldwide.<sup>2</sup> With minor exceptions, like aboriginal claims and community development quotas, only harvesters receive initial quota or quota share endowments.

### **Harvester-Only Initial Allocation**

This focus on harvester-only initial allocations is somewhat surprising given the manifest importance of the processing sector to fishery resource utilization. So why does the ITQ literature tacitly assume only harvesters intervene between the fish stock and the consumer? Historical precedence for endowing only the harvesting sector with property rights appears to be an accident of analysis that grew out of a primary concern for open-access stock externalities. Moreover, the Coase Theorem reassures efficiency-minded economists who are concerned about achieving Pareto optimality that they need not fret about the initial allocation. And since the limited ITQ policy experience is anchored in initial allocation endowments based on historical catch or vessel size, it is a convenient model to follow.

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<sup>1</sup>This observation unquestionably is true for North Pacific groundfish and crab fisheries.

<sup>2</sup>Clark and Munro (1980) addressed the potential role for taxes and subsidies to correct price distortions caused by a monopsonistic processing sector confronting a competitive harvesting sector. Munro (1982) extended that paper under the assumption that harvesters would react to monopsony by forming a raw fish monopoly. However, the explicit connection to ITQ policy was never made.

Regardless of the historical impetus for disregarding the processing sector, there are excellent practical reasons for including it. A harvester-only allocation in the North Pacific unnecessarily redistributes hundreds of millions of dollars from the processing sector to the catching sector. The magnitude of these uncompensated losses virtually guarantees political gridlock and jeopardizes adoption of an ITQ policy. Furthermore, it introduces efficiency-robbing transaction costs. Processors can be expected to spend up to their entire wealth litigating a harvester-only allocation since they have nothing to lose. Any allocation that helps avoid political gridlock in the adoption of ITQs should promote economic efficiency (Moloney and Pearse, 1979; Scott, 1979).

North Pacific fisheries are composed of a vertically integrated catcher-processor/factory trawler fleet and a nonvertically integrated catcher fleet that supplies raw product to motherships, floating processors and shore-based processors.<sup>3</sup> All facets of the industry are very capital intensive with specialized vessels valued at \$1 million to \$70-plus million each and a billion dollars invested in a few shore-based processing plants located in remote parts of Alaska. Excessive fishing power (fleet overcapitalization) is the rule. The processing sector is capitalized to meet the throughput requirements of short, derby fisheries that have evolved because of TAC-managed open access.

Accepting, for the moment, that economic efficiency (Pareto optimality) is attainable with any initial allocation, failure to include the processing sector is virtually certain to promote political gridlock and high transaction costs. The present industrial structure of the Alaska fish business is such that a harvester-only initial allocation endows both catchers and vertically

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<sup>3</sup>Hereafter, the processing sector refers to the shore-based component only. This simplification is made only for expository clarity. Neither the analysis nor conclusions are altered by this simplification.

integrated catcher-processors with rights, but not processors. This asymmetric entitlement permits all of the existing resource rents, including rents that derive from processing, to be captured by two of the three participants . . . those receiving initial entitlements. This enormous redistribution of wealth is easily illustrated with several simple examples that are discussed in greater detail later in the paper.

Suppose, for the moment, there is sufficient excess capacity among catcher-processors to harvest the TAC in all of the fisheries. Further, suppose that this segment of the industry is uniformly more efficient than the co-dependent catchers and processors, so that the vertically integrated catcher-processors will become buyers of quota shares from the catchers. The minimum effective trade price should equal the capitalized stream of expected revenues in excess of variable costs (quasi-rents) that would have accrued to the catchers plus the processors, less the opportunity cost of their displaced capital. Since processors hold no quota shares, rights-holding catchers can capture the co-dependent processors' quasi-rent stream.

There is an important variation on this distributional impact. Suppose there is no inter-sector trading. By allocating initial quota shares only to the harvesting sector, gains from trade result from intrasector fleet consolidation, thereby eliminating redundant fishing capacity.<sup>4</sup> However, fleet consolidation will elongate seasons which *creates* excess capacity in the processing sector. Processors must reconfigure, much like the fleet. Unlike the fleet, though, the cost of consolidation is uncompensated because processors received no initial endowment.

Recognize that catchers still appropriate some or all of the processors' quasi-rent stream through higher exvessel prices. This observation is independent of market share. A harvester-

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<sup>4</sup>Nearly all of the North Pacific fisheries of interest are currently managed with a total allowable catch. Little or no gains will accrue from improved stock exploitation because the method of setting TAC will remain unchanged.



only allocation empowers the catching sector to appropriate some or all of the processing quasi-rents because the vertically integrated catcher-processing sector remains a potential buyer of fishing rights from the catching sector. Co-dependent processors must attempt to block catcher-processors from buying quota shares from catchers by offering higher exvessel prices.

The ultimate irony occurs if processors were to buy quota shares from the catcher fleet. Because catchers can appropriate the processors' quasi-rents, processors would have to pay a price equal to the catchers' expected quasi-rent stream *plus* the value of their *own* expected quasi-rent stream.

Regardless of how the industry reconfigures, a harvester-only allocation ensures redistribution of processing sector wealth. This is why a harvester-only allocation poses a significant obstacle to ITQ policy adoption. The promise of improved efficiency is cold comfort to processors who are deprived the value of their property and lose wealth without compensation. Political gridlock is inevitable unless both intervening sectors participate equitably in the initial allocation, or unless the Council articulates some compelling rationale for promoting efficiency by intentionally disenfranchising the nonvertically integrated processing sector and attendant Alaska coastal communities. Analytical oversight or historical accident is insufficient policy impetus to take property and redistribute wealth.

In sum, an inescapable distributional consideration confronts the Council as it searches for a suitable ITQ design. Providing that income redistribution *is not* an explicit Council objective (or conversely, that distributional equity *is* an explicit Council objective), invoking the Pareto safety rule (Buchanan, 1959) yields a policy-superior initial allocation to the traditional harvester-only one. It is policy-superior because efficiency is assured and no party can suffer uncompensated losses. A Pareto-safe initial allocation acknowledges the rights in prior use of

both harvesting and processing sectors. Each would receive an initial distribution of rights that reflects their current or recent historical participation in the fishery. This has the distinct advantage of avoiding any redistribution while creating the desired incentives to promote economic efficiency. Efficiency, however, now will be judged by actual compensation rather than potential compensation; quota share trading can make no one worse off relative to their initial allocation. Gridlock can be avoided.

### **Pareto-Safe Initial Allocations**

Interestingly, Pareto safety is not a novel concept to the ITQ literature. A harvester-only allocation is Pareto safe so long as the processing sector is ignored or tacitly assumed away. Then, an implicit presumption of fairness in a harvester-only allocation stems from actual compensation as the impetus for eliminating redundant harvesting capacity. Efficiency gains would be fully compensated. A similar conclusion follows if the processing sector is wholly vertically integrated with the harvesting sector, which is not the case of the North Pacific.

Various initial allocations are Pareto safe. Consider the possibility of a "2-pie" initial allocation in which two types of quota shares are distributed. Catching quota shares would be allocated based on historical catch histories, while processing quota shares would be allocated based on historical processing histories. Other initial allocations hold similar promise for a distributionally superior outcome relative to the traditional harvester-only allocation. For example, catching quota shares could be allocated to harvesters, processors and catcher-processors. Alternatively, the rights to catch and process could be bundled into a nonseparable, full-utilization quota share which is allocated equally to those with catch history and those with processing history. A full-utilization quota share draws attention to the fact that it is not

catching or processing, per se, that is the focus of ITQ policy. Rather, efficient utilization of fishery resources is the principal policy objective, which includes both catching and processing. Under a full-utilization quota share system, catchers and processors would trade for complementary services. Processors would permit the use of their catching rights in return for the right to process. Exvessel price would serve as the equilibrating mechanism, as it does under open access. If catcher-processors are more efficient, they could bid the bundled full-utilization quota share away from the nonvertically integrated catching and processing sector.

Each of the above alternatives recognizes rights in prior use of both intervening sectors so as to avoid any redistribution of property or wealth that might result directly from the initial allocation. Furthermore, each alternative also creates incentives to promote intersector and intrasector efficiency. But what about transaction costs associated with the broader distribution of initial rights? These should be inconsequential. Fishery enforcement for much of the catcher fleet already occurs dockside, where TAC is monitored and, in some fisheries, where sex, size and season regulations are enforced. The existing open access enforcement program already requires filing fish tickets with every delivery; observer coverage includes processors; and processors must file annual reports with the Alaska Department of Fish and Game. Processing rights enforcement would occur coincidental to regulating harvest, as it does now. Moreover, inclusion of the processing sector has no impact on at-sea enforcement for either the catcher fleet or the catcher-processor fleet. These observations suggest that choice among alternative Pareto-safe initial allocations is a matter of political expediency, in the absence of any efficiency differences.

One final point deserves mentioning. The 2-pie initial allocation system holds the theoretical possibility of distorting current good faith exvessel price negotiations. Processors that

are guaranteed access to a fixed proportion of landed fish or crab could conceivably appropriate rents from the catchers. Price competition among processors theoretically is no longer necessary to secure raw product deliveries.

Several features of the industry suggest that processors will not be able to behave so as to appropriate all catcher rents. First, catchers already negotiate exvessel price through bargaining associations. These cooperative bargaining associations are both legal and powerful deterrents to market-power distortions that theoretically could arise from the 2-pie initial allocation. Processors can be blocked from appropriating catchers' rents. This conclusion stands in stark contrast to the harvester-only initial allocation, where processors cannot legally collude to prevent catchers from appropriating the change in processing quasi-rents. Collective retaliatory action is, therefore, possible; catchers could exclude delivery to processors that fail to bargain in good faith. This retaliatory action is directly analogous to strikes or tie-ups that occur under *status quo ante*, open access fisheries.

Season elongation under ITQs provides a second impetus to competitive pricing behavior. Catchers will be able to retaliate by directing catch away from noncompetitive processors during periods of high in-season prices. Finally, catchers can always sell quota shares to catcher-processors who then would be in a better position to acquire matched processing rights. And the vertically integrated catcher-processors most likely would have sufficient financial strength to strategically withdraw catch in order to devalue, and ultimately acquire, the now weakened noncompetitive processor. Of course, catcher-processors need not acquire unmatched catching or processing shares for strategic purposes. The shares are marketable assets that can be used or leased.

Contractual agreement before going fishing is the essential feature that avoids market-power distortions with a 2-pie initial allocation. Catchers would contract with processors in order to validate the right to process. Processors would have symmetrical motivations. Exvessel price negotiations, therefore, should reflect both the value of catching and processing services and also *status quo ante* bilateral bargaining power. A 2-pie initial allocation should move catchers and processors towards functional vertical integration, leaving both in a positive rent position.

This section drew attention to three facts that the Council must be made aware of as it searches for a suitable ITQ design. First, while a harvester-only allocation may hold the potential for achieving economic efficiency in the North Pacific, it does so by taking processors' property and wealth and redistributing it to the catchers. Second, this inescapable conclusion is an accident of 40 years of economic literature that tacitly assumes only harvesters intervene between the fish stock and the consumer. This assumption is patently false in the North Pacific. Both harvesting and processing capacities are consequential responses to the open access property rights structure. If either deserves an initial allocation, they both do. Third, there are alternative Pareto-safe initial allocations that assure efficiency while also guaranteeing that no party can suffer uncompensated losses.

### **III. ECONOMIC EFFICIENCY UNDER A HARVESTER-ONLY INITIAL ALLOCATION**

Absence of any consideration of the processing sector in the ITQ literature suggests it may be prudent to revisit the presumption of economic efficiency. In this section, the appropriate efficiency measure is established. A harvester-only initial allocation is assumed in order to verify the distributional impacts discussed in the previous section.

National standards (1) and (5) of the Magnuson Act require that fishery

- (1) Conservation and management measures shall prevent overfishing while achieving, on a continuing basis, the optimum yield for each fishery for the United States fishing industry.
- (5) Conservation and management measures shall, where practicable, promote efficiency in the utilization of fishery resources; except that no such measure shall have economic allocation as its sole purpose (§1851).

The term "optimum yield" is defined in §1802 as

". . . the amount of fish--

- (A) which will provide the greatest overall benefit to the nation, with particular reference to food production and recreational opportunities; and
- (B) which is prescribed as such on the basis of maximum sustainable yield from such fishery, as modified by any relevant economic, social or ecological factor."

Both national standards are consistent with conventional economic thought concerning efficiency.

The Hicks-Kaldor potential compensation test is the appropriate measure to judge improvements in economic efficiency. The Hicks-Kaldor test requires that economic gains due to a policy change must be able to *potentially* compensate all economic losses. The *change in efficiency due to the change in policy* from the current TAC-managed open access environment to an ITQ management system would increase economic welfare if it passed this test. Any positive increase in economic welfare is called a "Pareto improvement." Any change that violates the Hicks-Kaldor test decreases economic efficiency and is called "Pareto inferior." Finally, economic efficiency is judged relative to a very specific standard called "Pareto optimal" or "Pareto optimum." A policy is efficient, i.e., Pareto optimal, if no one can be made economically better off without making someone else worse off.

The Hicks-Kaldor efficiency test is directly analogous to a with and without benefit-cost analysis, given the initial distribution. Such a test centers on the *policy change* from the status quo (without) to a rights-based fishery (with).

The appropriate efficiency test is based on two exact welfare measures. Compensating variation ( $CV^B$ ) measures the sum of money which quota share buyers (B) would be willing to pay for a change from the status quo open access policy state to the ex post ITQ policy state. Compensating variation ( $CV^S$ ) is the sum of money which, when given to those who sell their quota shares (S), leaves them as well off under the ITQ policy. A positive change in aggregate economic welfare is measured simply as

$$(1) \quad CV^B > CV^S.$$

Equation (1) requires quota share buyers to utilize those rights more efficiently than the sellers. These CV measures are changes in capitalized, expected quasi-rent streams (revenues in excess of variable costs) caused by the policy change. In particular,

$$(2) \quad \begin{aligned} CV^B &= \sum_{i=1}^N (QR_{ITQ}^{B,i} - QR_0^{B,i}) \\ CV^S &= \sum_{i=1}^M (QR_0^{S,i} - OC^{S,i}). \end{aligned}$$

The stock variable  $QR_{ITQ}$  represents a firm's capitalized expected quasi-rent stream under the ITQ policy;  $QR_0$  is the capitalized value of expected quasi-rents under open access;  $OC$  is the opportunity cost of capital, i.e., capital asset value in its next best use. The superscripts  $B,i$  and  $S,i$  refer to the  $i^{\text{th}}$  firm among the buyers and sellers, respectively. All expectations are made

immediately prior to instituting the ITQ policy, so aggregate economic gainers and losers are presumed to be known. Also, a simplifying assumption is made with regard to the CV representations of equation (2). Specifically, no investment changes are considered other than disposal of capital assets (OC) by exiting enterprises.<sup>5</sup>

The aggregate welfare test given in equations (1) and (2) is not explicitly performed in the ITQ literature. It is presumed to be satisfied since conventional wisdom holds ITQs *prima facie* efficient. The literature instead develops a microeconomic theory of quota share trading *given* that an ITQ policy was previously adopted, without regard to the economics of the transition. Assuming the rights would be sold in lumpy, all-or-nothing units, profit maximizing firms would trade if

$$(3) \quad \Delta QR_{ITQ}^{B,i} > (QR_{ITQ}^{S,i} - OC^{S,i})$$

where  $\Delta QR_{ITQ}^{B,i}$  indicates the buyers' incremental gain in quasi-rents from acquiring "S,i's" quota shares.

Equations (1) and (2) provide the essential framework to measure, either empirically or qualitatively, the change in economic well-being of both intervening sectors: catching and processing. Consider the Hicks-Kaldor potential compensation tests presented in Table 1 for alternative intersector trades under a harvester-only initial allocation. Attention is focused on intersector trades for pedagogical purposes only. It simplifies an examination of the principal

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<sup>5</sup>See Appendix C in Just, Hueth and Schmitz (1982) for a thorough treatment of inter-temporal welfare changes. They show that ". . . the welfare effect of any change affecting a firm over time can be measured by the (discounted) sum of changes in short-run producer surpluses minus the (discounted) sum of changes in investments (p. 422)."



distributional and efficiency issues. Intrasector trading offers little additional insight into efficiency or equity matters.

Distributional implications discussed in the previous section can now be made more explicit. Condition (a) in Table 1 specifies the appropriate welfare test assuming catcher-processors (CP) purchase quota shares from catchers (C). Gains from trade require that compensating variation for catcher-processors, the left-hand side of the inequality, must exceed the combined compensating variations of co-dependent catchers and processors (P), the right-hand side. Catcher-processors must be able to compensate catchers for the net value of catching plus the entire value added due to processing, even though catchers do not perform the processing function. Otherwise, catchers would remain in production and appropriate net processing quasi-rents through exvessel price concessions. The term  $\sum_{i=1}^Z (QR_o^{P,i} - OC^{P,i})$ , thus, is the value of the market-power distortion introduced by a harvester-only initial allocation. Condition (b) reflects catchers buying quota from catcher-processors. Catchers, in this situation, would appropriate  $\alpha$ -portion of processors' *status quo ante* expected quasi-rents and vertically integrate. Condition (c) must be satisfied if processors were to purchase quota shares from catcher-processors. Processors would have to satisfy condition (d) if acquisition of rights from catchers is to increase societal well-being. The term  $\alpha$  represents the fraction of *status quo ante* net processing quasi-rents that catchers can capture, given that catcher-processors are always *potential* quota share buyers.<sup>6</sup>

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<sup>6</sup>Processors could make raw fish price concessions up to the point that finished product wholesale prices only cover variable processing costs. But they would raise exvessel price offers only as high as necessary to block trade. The aggregate concession would never exceed

$\sum_{i=1}^N (QR_{\pi Q}^{CP,i} - QR_o^{CP_o^{CP,i}}) - \sum_{i=1}^T (QR_{\pi Q}^{C,i} - OC^{C,i})$ . Else, it would violate the Hicks-Kaldor test by reversing the inequality sign.

**Table 1. Welfare Conditions of Alternative, Whole-Sector ITQ Trades Under a Harvester-Only Initial Allocation.**

$$(a) \quad \sum_{i=1}^N (QR_{ITQ}^{CP,i} - QR_o^{CP,i}) > \sum_{i=1}^T (QR_o^{C,i} - OC^{C,i}) + \sum_{i=1}^Z (QR_o^{P,i} - OC^{P,i})$$

$$(b) \quad \sum_{i=1}^T (QR_{ITQ}^{C,i} - QR_o^{C,i}) + \sum_{i=1}^Z (QR_{ITQ}^{P,i} - \alpha QR_o^{P,i}) > \sum_{i=1}^N (QR_o^{CP,i} - OC^{CP,i}), \alpha \in [0,1]$$

$$(c) \quad \sum_{i=1}^Z (QR_{ITQ}^{P,i} - QR_o^{P,i}) > \sum_{i=1}^N (QR_o^{CP,i} - OC^{CP,i})$$

$$(d) \quad \sum_{i=1}^Z (QR_{ITQ}^{P,i} - QR_o^{P,i}) > \sum_{i=1}^T (QR_o^{C,i} - OC^{C,i}) + \sum_{i=1}^Z (\alpha QR_o^{P,i} - OC^{P,i}), \alpha \in [0,1]$$

NOTES: The symbols CP, C and P indicate catcher-processors, catchers and processors, respectively.

The symbol  $\alpha$  is the share of net processing quasi-rents that catchers capture because of the market-power distortion created by assigning rights only to harvesters. In a competitive market,  $\alpha$  is determined by the contingent catcher-processor market for quota share.

All other variables were previously defined in the text.

#### IV. POTENTIAL EFFICIENCY DISTORTIONS FROM HARVESTER-ONLY ALLOCATION

Aggregate economic welfare conditions (a)-(d) also highlight the linkage between distributional matters and economic efficiency. Several potential efficiency consequences emanate from a harvester-only allocation. Each is discussed in this section.

##### Condition (a): Market Failure Due to Uncertainty

The centerpiece of an ITQ management system is that free trade, which is possible only if property rights exist, is Pareto optimal. This conclusion derives from the First Fundamental

Theorem of Welfare Economics which, roughly stated, says that a perfectly competitive equilibrium with complete markets is Pareto optimal (Arrow, 1951 and Debreu, 1959). This does not imply that market driven exchanges are necessarily efficient or, for that matter, Pareto improving (welfare increasing). The combination of asymmetric information and less than complete markets is one source of market failure. Akerlof (1974), for example, showed that asymmetric information in the marketplace for lemons--the automobile variety--can prevent trade in the absence of a complete risk market. A decade later, Newberry and Stiglitz (1984) extended the potential consequence of uncertainty and incomplete markets in the article, "Pareto Inferior Trade." They demonstrated that free trade under uncertain, but otherwise competitive markets can be Pareto inferior (welfare decreasing) to no trade.

Implementation of a North Pacific ITQ policy will *not* occur in an "Arrow-Debreu world" of complete, competitive markets which would guarantee that resource allocation is efficient, i.e., Pareto optimal. Both asymmetric information and incomplete markets are likely to accompany the policy change if implemented with a harvester-only initial allocation. Quota share traders will be asymmetrically informed about the various components of quota share price. None of the trilateral trading agents will know either of the other traders' expected quasi-rents (net of opportunity costs). While this alone is not sufficient to cause uncertainty due to this type of asymmetrical information, the additional presence of a "thin market" in which few private trades occur, is sufficient. Prices would not adequately convey information. Unless all of the industry reconfiguration occurs very quickly and openly, the plausible expectation of a thin quota share market will inhibit learning and, thus, the informational role of price. Failure to endow processors with initial rights aggravates this situation. See the discussion of conditions (c) and (d) below. The market would be incomplete because the resulting risk is not insurable.

And creating an insurance market is impractical because of high transaction costs. It is also doubtful that true private trade prices, disentangled of specific terms of trade, could be made public.

The equilibrium outcome of trade will not, in general, be Pareto optimal when actors in the marketplace are asymmetrically informed about the true state of the world and when the market is incomplete. This principle is easily shown in context of the aggregate welfare conditions presented in Table 1.

Suppose catcher-processors buy quota shares from catchers. Condition (a) must be satisfied for trade to be welfare improving.

$$(a) \quad \sum_{i=1}^N (QR_{ITQ}^{CP,i} - QR_0^{CP,i}) > \sum_{i=1}^T (QR_0^{C,i} - OC^{C,i}) + \sum_{i=1}^Z (QR_0^{P,i} - OC^{P,i})$$

However, the catchers, who ultimately sell the rights, only know their own  $CV^C$ . They do not know the processors'  $CV^P$  with certainty, as previously assumed. Moreover, there is not an active market in which price of individual quota shares is routinely and accurately posted, as in a stock exchange. The resulting uncertainty over  $CV^P$  allows trade to occur in violation of the strict inequality in condition (a). This is true even though processors have an incentive to raise exvessel prices in an attempt to block catcher-processors from buying quota shares from catchers. But they also have a countervailing incentive to offer the lowest possible exvessel price, thereby retaining the greatest possible portion of expected net quasi-rents.

A more concrete example might help clarify the issue. Let the certain, true state of the world be:  $CV^{CP} = \$1.90$ ,  $CV^C = \$1.00$  and  $CV^P = \$1.00$ . Condition (a) would be violated--  $\$1.90 \not> \$2.00$ . Societal well-being would decline \$0.10 if catchers sold their rights to catcher-processors. Now let the uncertain state of the world, viewed from the sellers' (catchers')

perspective, be defined as  $CV^{CP} = \$1.90$ ,  $CV^C = \$1.00$ , and  $CV^P = \$0.85$ . Inefficient trade would occur. This situation could happen whenever the catchers underestimate  $CV^P$  and the processors underestimate either  $CV^{CP}$  or  $CV^C$ .

Asymmetric knowledge coupled with an incomplete market imply a nonzero probability that some trades will be inefficient. ITQs under a harvester-only initial allocation will not assure Pareto optimality. There is also a nonzero probability that the trade, on average, will be welfare decreasing, though it seems likely that Bayesian learning holds the potential to avoid an overall net loss in welfare.

**Condition (b): Efficiency Implications of Catchers Vertically Integrating**

The Hicks-Kaldor test given in condition (b) implies eventual vertical integration between the catching and processing sectors.

$$(b) \quad \sum_{i=1}^T (QR_{ITQ}^{C,i} - QR_O^{C,i}) + \sum_{i=1}^Z (QR_{ITQ}^{P,i} - \alpha QR_O^{P,i}) > \sum_{i=1}^N (QR_O^{CP,i} - OC^{CP,i}), \alpha \in [0,1]$$

The salient feature of vertical integration is that the upstream catchers and downstream processors jointly maximize profits. This may be accomplished in either of two ways. The two sectors may functionally integrate or formally integrate. Either way, joint profit can be maximized.

Formal vertical integration could occur after catchers secure bargaining power from the harvester-only allocation. Catchers could form processing cooperatives once existing processors are driven out of business through raw fish price concessions. Recapitalizing the defunct processing sector should serve as strong stimulus for cooperation.

Nevertheless, the practical obstacles to cooperation are immense, especially among fiercely competitive fishers who are used to seeking highliner rents and associated prestige in an open access environment. Cartels are easy enough to break when the membership is less atomistic and less competitive. Also, formal vertical integration is not costless. The transaction costs of formally integrating hundreds of catchers with a few processors may be a formidable obstacle to vertical integration.

Functional vertical integration entails catchers and processors co-existing as separate, but co-dependent entities that jointly maximize profit through a formula price contract. Blair and Kaserman (1987) demonstrate that formula price contracting is an alternative to formal vertical integration. A formula price contract can simplify bilateral monopoly negotiations by focusing on rent share independent of final output price and quantity. The result is the desired joint profit maximization when the two nonintegrated firms independently maximize their individual profits, in the absence of strategic behavior. Munro (1982) used a Nash (1953) two-person cooperative game model to illustrate the same principle in a fisheries context. He showed that while catchers and processors bargain ostensibly over price, both sides, in fact, focus on the stream of net returns or rents, ". . . if the two sides bargain in a rational manner . . . de facto integration of the two sectors would occur (p. 201)."

It would appear that, theoretically at least, formula price contracting could promote efficiency, despite an asymmetric initial allocation. The implications of functional vertical integration are illustrated in Figure 1.

Figure 1 characterizes requisite bilateral monopoly exvessel price negotiations between the catching and processing sectors. The demand curve D is the processors' derived demand for raw fish. The supply curve S is the catchers aggregate marginal cost curve, which becomes

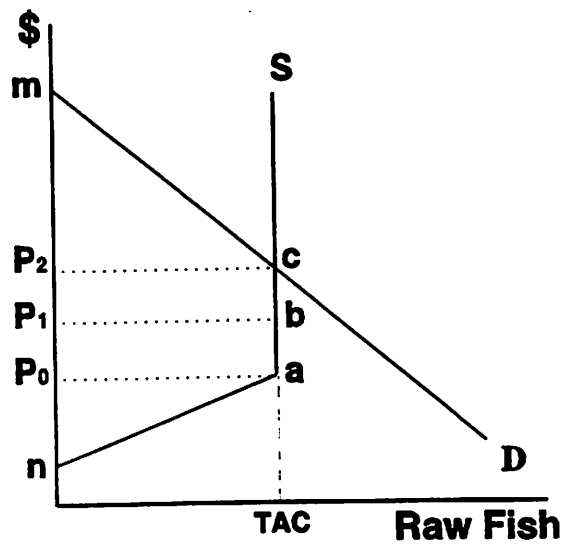


Figure 1. Exvessel Price Formation Under Bilateral Monopoly.

perfectly inelastic at the TAC. Bilateral monopoly price indeterminacy is bound, in this situation, between  $P_0$  and  $P_2$ . The *status quo ante* price,  $P_1$ , presumably reflects negotiated rent sharing, where the monopsonist (processors) earns rents equal to area  $(mcbP_1)$ , while the monopolist (catchers) earns rents equal to area  $(nabP_1)$ .

Realigning bargaining power through the harvester-only asymmetric initial allocation pressures price to  $P_2$ . Catchers will extract all of the contestable rents due to the price indeterminacy, area  $(P_0acP_2)$ , leaving processors in business, just making a "normal profit." Functionally integrated catchers and processors would buy quota shares from the offshore catcher-processor fleet, subject to trade condition (b).

It should be evident that functional, downstream vertical integration under a harvester-only initial allocation is a theoretical possibility that will not occur. The naive view that catchers and processors will co-exist under an asymmetric allocation violates the assumption of profit maximization. Joint profit maximizers would negotiate price somewhere between  $P_0$  and  $P_2$  only

if both retained some initial rights. The harvester-only allocation endows catchers with absolute rights over co-dependent processors. There is no reason for catchers to share rents when they can behave as perfectly price discriminating monopolists and secure an  $\alpha$  proportion,  $\alpha \in [0,1]$ , of all rents from processors through price concessions. Letting  $\alpha = 1$  for expository clarity, total rent ( $mca_n$ ) is strictly greater than the maximum amount of shared rent retained by catchers ( $P_2can$ ). Catchers would have no incentive to leave processors with rents in the amount of ( $mcP_2$ ).

Vertical integration is implied by condition (b) where catchers buy quota shares from catcher-processors. Formal integration is the only feasible means of doing this. The high transaction costs of formal vertical integration, at the very least, suggest the left-hand side of condition (b) overstates the potential gains from trade. That is,  $\sum_{i=1}^T (QR_{ITQ}^{C,i} - QR_O^{C,i}) + \sum_{i=1}^Z (QR_{ITQ}^{P,i} - \alpha QR_O^{P,i})$  must net out these transaction costs. Trade would be welfare increasing if the remaining benefits could potentially compensate the catcher-processors.

#### Conditions (c) and (d): Potential Efficiency Consequences of Limiting Markets

Welfare conditions (c) and (d) are of special interest because they highlight the direct linkage between distributional matters and economic efficiency. Consider condition (d).

$$(d) \quad \sum_{i=1}^Z (QR_{ITQ}^{P,i} - QR_O^{P,i}) > \sum_{i=1}^T (QR_O^{C,i} - OC^{C,i}) + \sum_{i=1}^Z (\alpha QR_O^{P,i} - OC^{P,i}), \alpha \in [0,1]$$

Failure to endow processors with initial rights, for all practical purposes, precludes them from acquiring quota shares from catchers. The net gain from vertical integration,  $\sum_{i=1}^Z (QR_{ITQ}^{P,i} - QR_O^{P,i})$ , must be sufficiently large to compensate the catchers so they are no worse



off than under open access,  $\sum_{i=1}^T (QR_o^{C,i} - OC^{C,i})$ . But processors also would have to buy back up to the current full market value of their own property,  $\sum_{i=1}^Z (\alpha QR_o^{P,i})$ .<sup>7</sup> The term  $OC^{P,i}$  is expected to be small or zero for placebound (nonmalleable) shore-based processing plants located in remote parts of Alaska. Even salvage would be very expensive.

Simply put, a harvester-only initial allocation shrinks what is likely to be an already thin market for quota shares. This situation creates a potential market failure if the initial allocation eliminates competitive bidding for quota shares by an impacted party, as in condition (d). The remaining *a priori* feasible trade set (a)-(c), or more likely (a) and (b), might be welfare increasing without the possibility of achieving a Pareto optimum. It is possible that the greatest gains in economic efficiency would occur if the processing sector could vertically integrate with the catching sector by fully compensating catchers their *status quo ante* expected returns net of opportunity costs. This is precisely the corresponding welfare condition (d') under a Pareto-safe initial allocation.

$$(d') \quad \sum_{i=1}^Z (QR_{ITQ}^{P,i} - OC^{P,i}) > \sum_{i=1}^T (QR_o^{C,i} - OC^{C,i})$$

Whether (d') promotes Pareto optimality is an empirical question.

Condition (c) is a variation on this theme.

$$(c) \quad \sum_{i=1}^Z (QR_{ITQ}^{P,i} - QR_o^{P,i}) > \sum_{i=1}^N (QR_o^{CP,i} - OC^{CP,i})$$

It was previously established that a harvester-only initial allocation redistributes not less than  $\alpha$ -share of current and expected future processing wealth to the catchers. This redistribution

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<sup>7</sup>Recall that  $\alpha \in [0,1]$  represents the fraction of net processing quasi-rents that catchers can capture through raw fish concessions because catcher-processors are always potential buyers of catcher quota shares.

creates a barrier to entry in financial markets. Processors will have no assets to leverage--presumably an essential requirement to be an active buyer of sufficient permanent quota shares to capture economies of size in processing.<sup>8</sup> Any purchase by processors will have to be 100% debt financed.

Excluding the processing sector from trading has an additional implication. It prevents the market from providing information about the value of processing (CV<sup>P</sup>). Catchers contemplating selling to catcher-processors, as in condition (a), would be able to ascertain the value of processing quasi-rents if processors were also bidding for catching rights. The uncertainty introduced in condition (a) is, to a large extent, a consequence of an initial allocation that shrinks the market for quota shares.

#### **Dynamic Aspects of Efficiency Given Asset Fixity**

The explicit welfare tests presented in Table 1 draw attention to the importance of asset fixity and to the fact that adjustment to rights-based fishing will not be instantaneous, as assumed. Needed is an endogenous explanation of how the shift from open access to an ITQ policy state takes place.

It is useful to think of this problem as consisting of two policy-relevant periods. The first period, which can be quite long, is the period in which all transition costs occur as the industry adjusts towards the long-run, fully implemented ITQ steady state. During the second period, the industry is at a steady state after the ITQ is fully implemented. The ITQ literature tends to overlook the adjustment period, instead focusing on the long run, in which capital is perfectly

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<sup>8</sup>A related barrier to entry arises from quota being a new financial asset. An asymmetric initial allocation denies processors access to this expanded pool of capital.

malleable. ITQs are unambiguously efficient *once* the industry adjusts to the long-run steady state.

Clark, Clarke and Munro (1979) point out the importance of the transitional phase in fisheries economics. They demonstrated that capital nonmalleability (more specifically, lack of perfect malleability) has a significant influence over the short-run dynamic behavior of optimal, conventional fisheries policies. McKelvey (1985) extended the results of Clark, Clarke and Munro by developing an optimal feedback control model that is nonlinear in the control instruments.

Unfortunately, neither paper addressed a switch from TAC-managed open access to ITQ management. Their results are, nonetheless, general enough to suggest that different transition paths between open access and the long-run ITQ steady state equilibrium can have differential efficiency effects. Initial property rights affect the transition path by affecting trade dynamics. Alternative investment and disinvestment trajectories, as well as shifts in bargaining power due to both initial quota share allocation and subsequent dynamic industry reconfiguration, help define the trade dynamics. These, in turn, make the notions of expected quasi-rent and the Hicks-Kaldor test dynamic concepts, conditional on the point in time at which they are measured.

Recently, Chavas (1993) introduced both sunk cost and risk in Jorgenson's (1967) neoclassical theory of investment to investigate how they affect production and investment decisions, and entry and exit decisions over the firm's planning horizon. He formally shows that even with Bayesian learning, sunk cost magnifies the negative effects of temporal uncertainty on current firm investment and behavior. "The combination of both sunk cost and uncertainty does not guarantee the resulting [resource] allocation is Pareto optimal (even in the constrained

sense of the term) (p. 26)."<sup>9</sup> That is, the presence of sunk cost and uncertainty yield results similar to those of Newberry and Stiglitz. The results of Chavas, however, rely on the less restrictive assumption of risk neutrality. Both sunk cost and uncertainty are present in the North Pacific fisheries.

### **ASSURING EFFICIENCY AND DISTRIBUTIONAL EQUITY**

The preceding sections point to a variety of potential policy shortcomings related to a harvester-only initial allocation. Quite apart from creating an enormous redistribution of wealth from processors to catchers, the asymmetric initial allocation was shown to have potentially serious efficiency implications. Presumption of efficiency seems ill-advised despite assurances to the contrary from Moloney and Pearse (1979),

But while the method of initially allocating these rights has important implications for the distribution of benefits, its implications for efficiency are only transitory, because an active market in freely transferable rights will ensure their allocation to those who can derive the highest value from them in any event (p. 861).

or from Scott (1979).

None of these distributive aspects affects the working of the quota system, so long as quotas are transferable, marketable and of fixed duration (p. 735).

A harvester-only initial allocation was shown to create a nonzero probability that trade will fail to achieve Pareto optimality. There are three manifestations of the potential inefficiencies discussed in this paper:

1. Market failure due to asymmetric information and thin markets.
2. Excluding an impacted party from the market solution.

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<sup>9</sup>Constrained Pareto optimal means efficient given the existing markets, i.e., incomplete risk markets (Chavas, p. 25).

3. Sunk costs and temporal uncertainty in dynamic adjustments to a fully implemented ITQ policy state.

Each of these potential inefficiencies originate from the same source . . . incomplete markets and, thus, a violation of the First Fundamental Theorem of Welfare Economics.

Whether an ITQ policy that is implemented through a harvester-only initial allocation fails to promote a Pareto optimum is to some extent an empirical question, though it does seem likely. The fact remains that a nonzero probability of inefficiency implies a nonzero expected social cost. If there exists a costless (or nearly so) way to complete the market, then efficiency losses can be avoided. Only then can the policy switch from open access to ITQs be expected to maximize net national benefits.

Recognizing that the incomplete markets stem from uncertainty introduced by the asymmetric initial allocation, one remedy is to broaden the distribution of property rights to include both intervening sectors. This natural solution is consistent with the distributionally superior Pareto-safe initial allocation discussed in Section II of this paper. The 2-pie initial allocation completely eliminates the pricing uncertainty related to welfare condition (a) by guaranteeing full compensation for all catching and processing services. Resolution of uncertainty is less direct in the case of full-utilization quota shares or an allocation of harvesting rights to both intervening sectors. For example, unlike the 2-pie allocation, catchers would not know the value of the implicit processing component of their rights, since they do not now process. The fact that all parties would now participate in the market, however, contributes to eliminating the uncertainty associated with a harvester-only allocation. Welfare condition (d') replaces (d). Catchers now will learn processors' willingness to pay for quota shares through a more competitive market. The broader distribution of rights effectively completes the market.

It was previously argued that the transaction costs incurred by including processors in the initial distribution were essentially zero. Therefore, a distribution of rights that equitably includes both intervening sectors is policy superior to a harvester-only allocation. Pareto optimality is assured. Expected net national benefits are greater. None of the three participating groups--catchers, processors or catcher-processors--can be made worse off by the policy change.

### CONCLUSION

A harvester-only allocation was shown to be unjust, unwise and unnecessary. It will literally transfer hundreds of millions of dollars from the processing sector to the catching sector without compensation. It risks political gridlock and failure of an ITQ plan. It will incur enormous, efficiency-robbing transaction costs. These transaction costs, alone, could ensure that an ITQ policy is *less efficient* than TAC-managed open access.

An inescapable distributional consideration confronts the Council as it searches for a suitable ITQ design. Providing that income redistribution is not an explicit Council objective, the initial allocation should reflect the current or recent historical distribution of catching and processing rights in prior use. Such an allocation is Pareto safe. It guarantees a level of economic efficiency at least as good as *any* other initial allocation, plus it guarantees that no party can suffer uncompensated losses.

Three alternative Pareto-safe initial allocations were shown to be unambiguously policy superior to the harvester-only allocation in the sense that they are both *just* and also *more efficient* than a harvester-only allocation. The Council can achieve this desired outcome by

endowing catchers, processors and vertically-integrated catcher-processors/factor trawlers with either:

1. A 2-pie initial allocation of separate catching and processing quota shares,
2. A full-utilization quota share that bundles the right to beneficially use (catch and process) the fishery resource, or
3. A harvesting right allocated to all three participants.

Each of these three initial allocation alternatives can maximize net national benefits--a harvester-only allocation cannot.

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